

*In the opinion of Bond Counsel, having assumed compliance by the Agency and the College with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds is not includable in gross income for federal income tax purposes under existing statutes, regulations and court decisions. Interest on the Bonds will not constitute a specific preference item for the purposes of computation of the alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in computing the alternative minimum tax imposed on corporations. The Act provides that the Bonds and the income therefrom shall at all times be exempt from taxation in the State of Vermont, except for transfer and estate taxes. See the caption "Tax Exemption" herein.*



**\$92,000,000**

**Vermont Educational and Health Buildings Financing Agency  
Revenue Bonds (Middlebury College Project) Series 2006**

**\$35,425,000 Series 2006A**

**\$56,575,000 Series 2006B,  
Periodic Auction Reset Securities (PARS<sup>SM</sup>)**

**Dated:** Date of Delivery

**Due:** As set forth on the  
inside cover hereof

The Series A Bonds and the Series B Bonds (collectively, the "Bonds") will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository for the Bonds. Purchases of beneficial interests in the Series A Bonds will be made in book-entry form only, in the denomination of \$5,000, or any integral multiple thereof. Purchases of beneficial interests of the Series B Bonds will be made in book-entry form, in the denomination of \$25,000 or any integral multiple thereof while the Series B Bonds are in the PARS Mode. Purchasers will not receive certificates representing their ownership interest in the Bonds.

So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the Bondholders or registered owners of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

So long as DTC or its nominee, Cede & Co., is the Registered Owner, such payments will be made directly to Cede & Co. Disbursement of such payments to the DTC's Direct Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of the Direct Participants and the Indirect Participants, as more fully described herein. The Bank of New York Trust Company, N.A., Boston, Massachusetts is Bond Trustee for the Bonds and Tender Agent for the Series B Bonds.

Interest on the Series A Bonds will be payable on May 1 and November 1 of each year, commencing May 1, 2007. The Series A Bonds will be subject to redemption prior to maturity as described herein.

Details of payment of the Series B Bonds are more fully discussed in this Official Statement. The Series B Bonds will be initially issued as PARS Bonds in a 7-day auction rate mode and are subject to conversion, at the option of the College and subject to certain restrictions, to other auction rate modes, to certain variable rate modes (including the Daily Rate, Flexible Rate, Weekly Rate, Term Rate) or the Fixed Rate mode. The Series B Bonds will bear interest from the date of delivery thereof for the Initial Period set forth on the inside cover of this Official Statement at the rate initially established by Goldman, Sachs & Co. and thereafter at the applicable PARS Rate determined pursuant to the Auction Procedures (as defined herein). Upon conversion from a PARS Rate Period to another Rate Period, the Series B Bonds will be subject to mandatory tender as described in "THE SERIES B BONDS - Conversion of Series B Bonds to Another Rate Period." The Series B Bonds will be subject to redemption prior to maturity as described herein.

Deutsche Bank Trust Company Americas, New York, New York, will initially serve as Auction Agent for the Series B Bonds. Goldman, Sachs & Co. will initially serve as the sole Broker-Dealer with respect to the Series B Bonds.

This Official Statement is intended to provide disclosure only with respect to the Series B Bonds in the PARS Mode.

Payment of principal of and interest on the Series B Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Series B Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AGENCY AND WILL BE PAYABLE SOLELY FROM THE REVENUES OF THE AGENCY DERIVED FROM PAYMENTS TO BE MADE BY OR ON BEHALF OF THE PRESIDENT AND FELLOWS OF MIDDLEBURY COLLEGE, IN ACCORDANCE WITH THE PROVISIONS OF THE LOAN AGREEMENT AND THE BOND INDENTURE AND FROM CERTAIN OTHER FUNDS, ALL AS MORE FULLY DESCRIBED HEREIN. LIQUIDITY FOR THE PURCHASE OF TENDERED SERIES B BONDS WILL BE PROVIDED BY THE COLLEGE. THE AGENCY HAS NO TAXING POWER. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY MUNICIPALITY OR POLITICAL SUBDIVISION OF THE STATE OF VERMONT IS PLEDGED TO THE PAYMENT OF THE BONDS.

The Bonds are offered when, as and if issued by the Agency and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Sidley Austin LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon by Deppman & Foley, P.C., Middlebury, Vermont, Counsel to the Agency. Certain legal matters will be passed upon by Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, Counsel to the College. Certain legal matters will be passed upon for the Underwriter by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on or about October 31, 2006.

**Goldman, Sachs & Co.**

Dated: October 25, 2006

† See "RATINGS" herein.

PARS<sup>SM</sup> is a service mark of Goldman, Sachs & Co.

**\$92,000,000**

**Vermont Educational and Health Buildings Financing Agency**

**Revenue Bonds (Middlebury College Project) Series 2006**

**\$35,425,000 5.00% Series A Bonds due October 31, 2046 -- Yield 4.55%\***

**\$56,575,000 Series B, Periodic Auction Reset Securities (PARS<sup>SM</sup>) -- Price 100%**

<b><u>Auction Periods Generally</u></b>	<b><u>Auction Date Generally</u></b>	<b><u>Last Day of Initial Period</u></b>	<b><u>First Auction Date</u></b>	<b><u>First Interest Payment Date</u></b>	<b><u>Final Maturity</u></b>
Seven-Day	Monday	November 6, 2006	November 6, 2006	November 7, 2006	November 1, 2026

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PARS<sup>SM</sup> is a service mark of Goldman, Sachs & Co.

\* Priced to the November 1, 2016 optional redemption date.

No dealer, broker, salesman or other person has been authorized by Vermont Educational and Health Buildings Financing Agency (the "Agency"), The President and Fellows of Middlebury College (the "College") or the Underwriter to give any information or to make any representations with respect to the Bonds other than what is contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information contained herein under the heading "The Agency" has been furnished by Vermont Educational and Health Buildings Financing Agency. All other information contained herein has been obtained from the College and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed to be the representation of the Agency. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

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

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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## **Official Statement**

**Relating to**

**\$92,000,000**

### **Vermont Educational and Health Buildings Financing Agency**

**Revenue Bonds**

**(Middlebury College Project) Series 2006**

**\$35,425,000 Series 2006A**

**\$56,575,000 Series 2006B, Periodic Auction Reset Securities (PARS<sup>SM</sup>)**

This Official Statement, including the cover page and appendices hereto, sets forth certain information concerning the Vermont Educational and Health Buildings Financing Agency (the “Agency”), a public instrumentality of the State of Vermont (the “State”), its \$35,425,000 Revenue Bonds (Middlebury College Project) Series 2006A (the “Series A Bonds”), its \$56,575,000 Revenue Bonds (Middlebury College Project), Series 2006B, Periodic Auction Reset Securities (the “Series B Bonds” and collectively with the Series A Bonds, the “Bonds”) and The President and Fellows of Middlebury College, a private non-profit college (the “College”). The Bonds are authorized to be issued pursuant to the Vermont Educational and Health Buildings Financing Agency Act, being Chapter 131, Sections 3851 to 3862, inclusive, of Title 16, Vermont Statutes Annotated, as amended (the “Act”).

#### **INTRODUCTORY STATEMENT**

The Bonds will be issued for the purpose of making a loan to the College to provide funds for various capital improvements to the College and to refund the Agency's Revenue Bonds (Middlebury College Project) Series 1996 (the “Refunded Bonds”) See “THE PROJECT” and “PLAN OF FINANCE.”

The Bonds will be issued under a bond indenture dated as of September 1, 2006 (the “Bond Indenture”) between the Agency and The Bank of New York Trust Company, N.A., Boston, Massachusetts, as bond trustee (the “Bond Trustee”), and resolutions of the Agency adopted on October 3, 2006 (the “Resolution”). The Bank of New York Trust Company, N.A., will also serve as Tender Agent for the Series B Bonds.

Simultaneously with the issuance of the Bonds of each series and in consideration of its loan to the College of the proceeds thereof, the College will issue a note (each, a “Note”) and deliver the Note to the Agency for assignment to the Bond Trustee for the sole benefit of the owners of the Bonds of such series, pursuant to a Loan Agreement dated as of September 1, 2006 (the “Loan Agreement”) between the College and the Agency. The Note will be in the same face amount and will have terms and conditions to provide payments thereon sufficient to pay all amounts to become due on the Bonds of the series related thereto.

The Bonds are limited obligations of the Agency. The Agency is not obligated to pay principal of, or the premium, if any, or the interest on the Bonds of a series except from (i) payments to be made by the College on the related Note and (ii) other amounts held by the Bond Trustee pursuant to the Bond Indenture. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged as security for the payment of the principal of, or premium, if any, or interest on the Bonds. The College's obligation on a Note is an absolute and unconditional obligation of the College, payable from any or all of its available assets or funds.

The provisions of the Bonds are more fully described below and a more detailed description of the use of the Bond proceeds is included herein.

The Series A Bonds will bear interest from the date of delivery and will mature on the dates and in the amounts and bear interest at the rates set forth on the inside cover page of this Official Statement. The Series B Bonds will be initially issued as PARS Bonds in a 7-day auction rate mode and are subject to conversion, at the option of

the College and subject to certain restrictions, to and from other auction rate modes, to and from certain variable rate modes (including the Daily Rate, Flexible Rate, Weekly Rate, Term Rate) or to the Fixed Rate mode. The Series B Bonds will bear interest from the date of delivery thereof for the Initial Period set forth on the inside cover of this Official Statement at the rate initially established by Goldman, Sachs & Co. so that all Series B Bonds are sold at par and thereafter at the applicable PARS Rate determined pursuant to the Auction Procedures (as defined herein). On the conversion date applicable to the Series B Bonds to be converted, the Series B Bonds to be converted are subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest as described in “THE SERIES B BONDS – Conversion of the Series B Bonds to Another Rate Period.” The principal portion of the purchase price of the Series B Bonds so tendered is payable solely from the proceeds of the remarketing of such Series B Bonds.

The description included in this Official Statement of various documents pertaining to the Bonds do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions thereof. All references herein to the Bonds, the Bond Indenture, the Loan Agreement, the Notes, the Auction Agent Agreement and the Broker-Dealer Agreement are qualified in their entirety by reference to such documents. Copies of the documents are available for inspection at the principal corporate trust office of the Bond Trustee located at 222 Berkeley Street, 2<sup>nd</sup> Floor, Boston, Massachusetts.

Capitalized terms used in this Official Statement have the meanings specified herein and in Appendix C hereto. Terms not otherwise defined in this Official Statement have the meanings provided in the specific documents.

## **THE AGENCY**

The Agency has been created as a body corporate and politic constituting a public instrumentality of the State of Vermont for the purpose of exercising the powers conferred on it by virtue of the Act. The purpose of the Agency is essentially to assist certain health care and educational institutions in the acquisition, construction, financing and refinancing of their related projects.

### **Agency Membership and Organization**

Under the Act, the Board of the Agency consists of the Commissioner of Education of the State of Vermont, the State Treasurer, the Secretary of Human Services Agency, and the Secretary of Administration of the State, all *ex officio*, seven members appointed by the Governor of the State, with the advice and consent of the Senate, for terms of six years, and two members appointed by the members appointed by the Governor for terms of two years. The members of the Board annually elect a Chair, a Vice Chair, a Treasurer and a Secretary. The day-to-day administration of the Agency is handled by the Executive Director of the Agency.

The present officers and members of the Agency and their places of business or residence are as follows:

#### **Officers**

James B. Potvin, Chairman  
Stevens, Wilcox, Baker, Potvin  
Cassidy & Jakubowski  
Rutland, Vermont

Dawn D. Bugbee, Vice Chair  
Vice President and Chief Financial Officer  
Green Mountain Power Corporation  
Colchester, Vermont

Jeb Spaulding, Treasurer  
State Treasurer  
Montpelier, Vermont

Peter A. Sherlock, Secretary  
Sherlock Investment Management  
Brattleboro, Vermont

#### **Ex Officio Members**

Jeb Spaulding  
State Treasurer  
Montpelier, Vermont

Michael K. Smith  
Secretary of the Agency of Administration  
Montpelier, Vermont

Richard Cate  
Commissioner of Education  
Montpelier, Vermont

Cynthia D. LaWare  
Secretary of the Agency of Human Services  
Waterbury, Vermont

#### **Appointed and Elected Members**

Dawn D. Bugbee, Vice Chair  
Vice President and Chief Financial Officer  
Green Mountain Power Corporation  
Colchester, Vermont

Kenneth Gibbons  
President  
Union Bank  
Morrisville, Vermont

Edward Ogorzalek  
Chief Financial Officer  
Rutland Regional Medical Center  
Rutland, Vermont

James B. Potvin  
Certified Public Accountant  
Stevens, Wilcox, Baker, Potvin  
Cassidy & Jakubowski  
Rutland, Vermont

Neil G. Robinson  
Vice President for Finance  
St. Michael's College  
Colchester, Vermont

Mary Pat Scarpa  
Vice President, Private Banking  
KeyBank  
Burlington, Vermont

Peter A. Sherlock  
President  
Sherlock Investment Management  
Brattleboro, Vermont

Stuart W. Wepler  
Financial Consultant  
Morrisville, Vermont

#### **Executive Director**

Robert Giroux  
Executive Director  
Vermont Educational and Health  
Buildings Financing Agency  
58 East State Street  
Montpelier, Vermont

Deppman & Foley, P.C., Middlebury, Vermont, is general counsel to the Agency.

Sidley Austin LLP, New York, New York, is Bond Counsel and will submit its approving opinion with regard to the legality of the Bonds in substantially the form attached hereto as Appendix D.

Public Financial Management, Inc., Boston, Massachusetts, is the financial advisor to the Agency.

#### **Financing Programs of the Agency**

The Agency was duly created under the Act as a body corporate and politic constituting a public instrumentality of the State of Vermont. The Act empowers the Agency, among other things, to finance or assist in the financing of eligible institutions, through financing agreements, which may include loan agreements, lease agreements, conditional sales agreements, purchase money mortgages, installment sale contracts, and other types of contracts; to acquire property, both real and personal, including leasehold and other interests in land necessary or convenient for its corporate purposes; to acquire or make loans with respect to facilities, including buildings, improvements to real property, equipment, furnishings, appurtenances, utilities and other property, determined by the Agency to be necessary or convenient in the operation of any eligible institution; to lease or to make loans with respect to such facilities to any such eligible institution; and to issue refunding bonds of the Agency whether the bonds to be refunded have or have not matured.

The Agency has heretofore authorized and issued numerous series of its bonds and notes, including the Agency's \$40,000,000 Adjustable Rate Revenue Bonds (Middlebury College Project) Series 1988A of which \$34,570,000 remains outstanding, the Agency's \$65,000,000 Revenue Bonds (Middlebury College Project) Series 1996 of which \$56,520,000 remains outstanding (see "PLAN OF FINANCE"), the Agency's \$60,000,000 Revenue Bonds (Middlebury College Project) Series 1999 of which \$60,000,000 remains outstanding, and the Agency's \$91,260,000 Revenue Bonds (Middlebury College Project), Series 2002 of which \$89,720,000 remains outstanding. With the exception of those four Agency issues on behalf of the College, all outstanding Agency bonds and note issues have been authorized and issued pursuant to financing documents separate from and unrelated to the Loan Agreement and the Bond Indenture for the Bonds and are payable from certain revenues other than those pledged for payment of the Bonds. Inasmuch as each series of bonds and notes of the Agency is secured separately from all other bonds and notes issued thereby, the moneys on deposit in the respective funds (including cash and securities in the respective reserve accounts) established to provide for the timely payment of the debt service requirements on the various issues of outstanding bonds and notes of the Agency cannot be commingled or be used for any purpose other than servicing the requirements of the specific series of bonds or notes in connection with which such funds were created.

The Agency under the Act may issue from time to time other bonds and notes under separate resolutions to assist certain health care and educational institutions in the acquisition, construction, financing and refinancing of their related projects payable from revenues derived by the Agency from such institutions.

Other than with respect to the description of the Agency provided herein, and the information with respect to the Agency under "ABSENCE OF MATERIAL LITIGATION" herein, the Agency has not prepared or reviewed, and expresses no opinion with respect to the accuracy or completeness of, any of the information set forth in this Official Statement.

No recourse shall be had for any claim based on the Bonds, the Loan Agreement or the Bond Indenture against any past, present or future member, officer, employee or agent, as such, of the Agency or of any predecessor or successor corporation, either directly or through the Agency or otherwise, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise.

## **SECURITY FOR THE BONDS**

The Bonds of a series are being issued under the Bond Indenture pursuant to which the Agency will assign to the Bond Trustee all its right, title and interest in the related Note issued pursuant to the Loan Agreement. Each Note, in turn, is an unsecured absolute and unconditional obligation of the College, payable from any or all of its available assets or funds. Each Note is issued by the College pursuant to the Loan Agreement in consideration for the loan of proceeds of the Bonds of the series related thereto by the Agency to the College. The College agrees to use the proceeds for the Project and to make certain other payments in connection therewith. The College is obligated under each Note to make payments of principal, premium, if any, and interest on the Bonds of the series related thereto when and as the same become due and payable. The Bonds are not secured by any mortgage lien or other security interest in the Project or any other property of the College.

The Bonds are limited obligations of the Agency. The Agency is not obligated to pay principal of, or the premium, if any, or the interest on the Bonds except from the sources described above. The Bonds do not constitute or create any debt, liability or obligation of the State or any political subdivision or instrumentality thereof (other than the Agency) or a pledge of the faith and credit of the State or any political subdivision or agency of the State, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged as security for the payment of the principal of, or premium, if any, or the interest on the Bonds.

Payment of the regularly scheduled principal of and interest on the Series B Bonds when due will be insured by a financial guaranty insurance policy (as used herein, the "Bond Insurance Policy") to be issued by Ambac Assurance Corporation (the "Bond Insurer") simultaneously with the delivery of the Series B Bonds. See "BOND INSURANCE" herein and Appendix F--"Form of Bond Insurance Policy."



## THE SERIES A BONDS

### Description of the Series A Bonds

**General** The Series A Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. The Series A Bonds will be dated their date of delivery, and will mature on the date and bear interest at the rate set forth on the inside cover page hereof. Interest on the Series A Bonds will be payable on May 1, 2007, and on each November 1 and May 1 thereafter, and on the maturity date. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Subject to the provisions discussed under “BOOK-ENTRY-ONLY SYSTEM,” principal or the redemption price of the Bonds will be payable at the corporate trust office of the Bond Trustee. Interest on the Bonds will be payable by check or draft mailed to the Bondowners of record as of the close of business on the 15th day (whether or not such day is a Business Day) of the calendar month preceding an interest payment date (the “Regular Record Date”), or by wire transfer if so requested by any registered owner holding a series of Bonds in the minimum aggregate principal amount of \$100,000.

### Redemption Provisions of the Series A Bonds

**Optional Redemption of the Series A Bonds.** The Series A Bonds are subject to redemption by the Agency, at the option of the College, on or after November 1, 2016, in whole or in part on any date, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

**Selection of Series A Bonds for Redemption.** The particular Series A Bonds to be redeemed shall be selected by the Bond Trustee by lot, in such manner as the Bond Trustee in its discretion may determine, with each \$5,000 portion of principal being counted as one Series A Bond for this purpose.

**Notice of Redemption.** Notice of each redemption of Series A Bonds is required to be given by first class mail, postage prepaid, not less than 30 days prior to the redemption date to each registered owner of the Series A Bonds to be redeemed at the address recorded on the bond register, but failure to mail any such notice or any defect therein shall not affect the validity of the proceedings for such redemption with respect to owners to whom notice was duly given. If notice of redemption of any Series A Bond is given, such Series A Bond will be due and payable on the redemption date and, if funds sufficient to pay the redemption price are deposited with the Bond Trustee on such date, will cease to accrue interest after the date fixed for redemption. Any notice of redemption, may state that the redemption to be effected is conditioned upon the receipt by the Bond Trustee on or prior to the redemption date of moneys of the College sufficient to pay the principal of, premium, if any, and interest on such Series A Bonds to be redeemed. In the event that such notice contains such a condition and sufficient moneys are not received by the Bond Trustee on or prior to the redemption date, the redemption will not be made and the Bond Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

## THE SERIES B BONDS

### Description of the Series B Bonds

The Series B Bonds will be issued pursuant to the Bond Indenture. The Series B Bonds will be issued initially as bonds that bear interest at PARS Rates but may be converted at the option of the College, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rate, Flexible Rate, Weekly Rate, Term Rate and Fixed Rate. The Series B Bonds will be dated the date of delivery, and will bear interest from their date of delivery for the applicable Initial Period set forth on the inside front cover of this Official Statement at the rate established by Goldman, Sachs & Co. so that all Series B Bonds are sold at par and thereafter at the applicable PARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the applicable Initial Period, the Series B Bonds will initially bear interest for Auction Periods set forth on the inside cover of the Official Statement but can be converted to and from a daily, seven-day, 14-day, 28-day, 35-day, three-month, six-month or a Special Auction Period. The Special Auction Period is any period of 182 days or less which is divisible by seven and which is not another Auction Period or any period of more than 182 days which ends not later than the final maturity of the Series B Bonds. Upon conversion from a PARS Rate Period to a Term Rate Period, a Daily Rate

Period, a Weekly Rate Period, a Flexible Rate Period or a Fixed Rate Period, the Series B Bonds will be subject to mandatory tender, the principal portion of which will be payable solely from the proceeds of the remarketing of the Series B Bonds to be converted, on the conversion date at a price equal to 100% of the principal amount thereof. Interest on the Series B Bonds in a daily, seven-day, 14-day, 28-day, 35-day, a three-month or a Special Auction Period of 180 days or less will be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the Series B Bonds in a six-month Auction Period or a Special Auction Period of more than 180 days will be computed on the basis of a 360-day year of twelve 30-day months. See “THE SERIES B BONDS – PARS Bonds” and “Appendix E – PARS Provisions.”

The Series B Bonds will be issued as fully registered bonds without coupons and in denominations of \$25,000 or any integral multiple thereof. The Series B Bonds 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 B Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series B Bonds, the Series B Bonds will be exchangeable for other fully registered certificated Series B Bonds in any authorized denominations, maturity and interest rate. See “BOOK-ENTRY-ONLY SYSTEM” herein. The Bond Trustee may impose a charge sufficient to reimburse the Agency, the College or the Bond Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Series B Bond. The cost, if any, of preparing each new Series B Bond issued upon such exchange or transfer, and any other expenses of the Agency, the College or the Bond Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the Series B Bonds will be payable by check mailed to the registered owners thereof. However, interest on the Series B Bonds will be paid to any owner of \$1,000,000 or more in aggregate principal amount of the Series B Bonds by wire transfer to a wire transfer address within the continental United States upon the written request of such owner received by the Bond Trustee not less than five days prior to the Record Date. As long as the Series B 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.

## **PARS Bonds**

“PARS Rate” means with respect to Series B Bonds, while such Series B Bonds bear interest at a PARS Rate, the rate of interest to be borne by such Series B Bonds during each Auction Period which (other than for the Initial Period) will equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (a) if the preceding Auction Period was a period of 35 days or less, the new Auction Period will be the same as the preceding Auction Period and the PARS Rate for the new Auction Period will be the same as the PARS Rate for the preceding Auction Period, and (b) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period will be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the PARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended, and, in the event the Auction Period is extended as set forth in clause (b) an Auction will be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended; provided, further, that in no event will the PARS Rate exceed the Maximum Interest Rate; and; provided, further, in the event of a failed conversion from a PARS Rate to a Term Rate, a Daily Rate, a Weekly Rate, a Flexible Rate or a Fixed Rate or the conversion from one Auction Period to another Auction Period, the affected Series B Bonds will convert to a seven-day Auction Period and bear interest at the Maximum Interest Rate for the next Auction Period. Notwithstanding the foregoing, no PARS Rate will be extended for more than 35 days. If at the end of 35 days the Auction Agent fails to calculate or provide the Auction Rate, the PARS Rate will be the Maximum Interest Rate.

“Maximum Interest Rate” means 12% or the maximum interest rate permitted by law.

“Interest Payment Date” means with respect to the Series B Bonds, the date set forth on the inside front cover of this Official Statement for the Initial Period, 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; (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Special Auction Period, or (ii) more than 182 days, each May 1 and November 1 (or such other semiannual cycle as then determined by the College) on the Business Day immediately following such Special Auction Period.

“Auction Date” means with respect to the Series B Bonds, (a) if such Series B Bonds are in a daily Auction Period, each Business Day unless such day is the last Business Day prior to the conversion from a daily Auction Period to another Auction Period, (b) if such Series B Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if such Series B Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series B Bonds (whether or not an Auction is conducted on such date); provided, however, that the last Auction Date with respect to such Series B Bonds in an Auction Period other than the daily Auction Period or Special Auction Period is the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the conversion date for such Series B Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Series B Bonds; and provided, further, that if the Series B Bonds are in a daily Auction Period, the last Auction Date is the earlier of (x) the Business Day next preceding the conversion date for such Series B Bonds and (y) the Business Day next preceding the final maturity date for the Series B Bonds. The last Business Day of a Special Auction Period is the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

"Auction Period" means with respect to the Series B Bonds:

- (a) a Special Auction Period;
- (b) with respect to the Series B Bonds in a daily Auction Period, a period beginning on each Business Day and extending to, but not including, the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;
- (c) with respect to the Series B Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (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), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);
- (d) with respect to the Series B Bonds in a 14-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 14 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the second Sunday thereafter (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), (ii) Mondays, a period of generally 14 days

beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the second Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 14 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the second Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 14 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the second Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 14 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the second Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to the Series B Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (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), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to the Series B Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (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), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(g) with respect to the Series B Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following

the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(h) with respect to the Series B 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 April 30 or October 31;

provided, however, that

(a) if there is a conversion of the Series B Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-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 next succeeding 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), (ii) from a daily Auction Period to a 14-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 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) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 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) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 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) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of the Series B Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-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 next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to 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 Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of the Series B Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-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 next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a

28-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 Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of the Series B Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-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 next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of the Series B Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-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 next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate, the Auction Period will automatically change to a seven-day Auction Period.

**Auction Agent.** The Bond Trustee will enter into the Auction Agreement initially with Deutsche Bank Trust Company Americas, pursuant to which, Deutsche Bank Trust Company Americas, as Agent for the Bond Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures, as set forth in Appendix E.

***Auction Date.*** An Auction to determine the interest rate with respect to the Series B Bonds for the next succeeding Auction Period will be held on each Business Day while such Series B Bonds are in a daily Auction Period, unless such day is the last Business Day preceding a conversion from a daily Auction Period to another Auction Period, and if in any other Auction Period on the last Business Day of the Auction Period. The first Auction for the Series B Bonds will take place on the date set forth on the inside front cover of this Official Statement.

***Order from 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 B Bonds bearing interest at PARS Rates (collectively, the “Auction Procedures”).

***Amendment of Auction Procedures.*** The provisions of the concerning the Auction Procedures including without limitation the definitions of All Hold Rate, Maximum Interest Rate, PARS Index, Interest Payment Date and PARS Rate may be amended by obtaining the consent of the owners of all PARS of the Series B Bonds affected by the amendment. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Auction Agent mailed notice to such owners the PARS Rate determined for such date is the Winning Bid Rate or All Hold Rate.

***Conversion of Series B Bonds to Another Rate Period.*** At the option of the College and with the consent of the Agency, the Series B Bonds may be converted to bear interest at a Term Rate, a Daily Rate, a Weekly Rate, a Flexible Rate or a Fixed Rate. On the Conversion Date applicable to the Series B Bonds to be converted, the Series B Bonds to be converted are subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The principal portion of the purchase price of the Series B Bonds so tendered is payable solely from the proceeds of the remarketing of such Series B Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Series B Bonds on a mandatory tender date, the Series B Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Interest Rate. It is currently anticipated that, should any of the Series B Bonds be converted to bear interest at a Term Rate, a Daily Rate, a Weekly Rate, a Flexible Rate or a Fixed Rate, a remarketing memorandum or remarketing circular will be distributed describing the Series B Bonds to be converted during such Rate Period.

***Conversion from One Auction Period to Another.*** On the conversion date for the Series B Bonds selected for conversion from one Auction Period to another, any Series B 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, the Series B Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Interest Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the Series B Bonds to be converted will not be subject to mandatory tender on such conversion date.

### **Special Considerations Relating to the Series B Bonds Bearing Interest at PARS Rates**

Goldman, Sachs & Co. has been appointed by the issuers of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers for its services. Goldman, Sachs & Co. receives broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Goldman, Sachs & Co. in auctions.

Goldman, Sachs & Co. is designated in the Broker-Dealer Agreement as the Broker-Dealer (the “Broker Dealer”) to contact Existing Holders and Potential Holders and solicit Bids for the Series B Bonds. The Broker-Dealer will receive Broker-Dealer Fees from the Agency with respect to the Series B Bonds sold or successfully placed through it in Auctions. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction.

***Bidding by Broker-Dealer.*** The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other

Bidders because Broker-Dealer would have knowledge of the other Orders placed through it in that Auction and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction and (ii) the Auction will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the College to serve as a Broker-Dealer in the Auction, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

Where Goldman, Sachs & Co. is the only Broker-Dealer appointed by the College to serve as Broker-Dealer in the Auction, it would be the only Broker-Dealer that submits Orders to the Auction Agent in that Auction. As a result, in such circumstances, the Broker-Dealer could discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer may place bids in auctions including auctions for securities other than the Series B Bonds for its own account to acquire securities for its inventory to prevent an "Auction Failure" (which occurs if there is a lack of sufficient clearing bids and results in auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place one or more Bids in an Auction for its own account to acquire the Series B Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions from clearing at a rate that the Broker-Dealer believes does not reflect the market for such Series B Bonds. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for its own account, the Broker-Dealer may also Bid inside or outside the range of rates that it posts in its Price Talk. See "Price Talk."

The Broker-Dealer routinely encourages bidding by others in auctions for which it serves as Broker-Dealer including auctions for securities other than the Series B Bonds. The Broker-Dealer also may encourage Bidding by others in Auctions, including to prevent an Auction Failure or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Series B Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the Series B Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer Series B Bonds than they would have received if the Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the Series B Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or not encourage other Bidders to do so in any particular Auction to prevent an Auction Failure or an Auction from clearing at a rate the Broker-Dealer believes does not reflect the market for the Series B Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

In any particular Auction, if all outstanding Series B Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealer holds any Series B Bonds for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction with respect to such Series B Bonds, which would prevent that Auction from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction, as set forth above.

**Price Talk.** Before the start of an Auction, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Holders and Potential Holders the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction will be within the Price Talk, and Existing Holders and Potential Holders are free to use it or ignore it. The Broker-Dealer may occasionally update and change the Price Talk based on changes in the College's or the Bond Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve



Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Holders should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

***“All-or-Nothing” Bids.*** The Broker-Dealer will not accept “all-or-nothing” Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Series B Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

***No Assurances Regarding Auction Outcomes.*** The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Series B Bonds purchased or retained in the Auction may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Series B Bonds from or sell Series B Bonds to a customer after the Auction.

***Deadlines.*** Each particular Auction has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline — called the “Internal Submission Deadline” — by which Bidders must submit Bids to the Broker-Dealer. The Internal Submission Deadline is subject to change by the Broker-Dealer. Potential Holders should consult with the Broker-Dealer as to its Internal Submission Deadline. The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. Goldman, Sachs & Co. may submit Bids for its own account at any time until the Submission Deadline.

***Existing Holder’s Ability to Resell Auction Rate Securities May Be Limited.*** An Existing Owner may sell, transfer or dispose of a Series B Bond only in an Auction, pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or outside an Auction, to or through a Broker-Dealer.

Existing Holders will be able to sell all of the Series B Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Series B Bonds in the Auction. If Sufficient Clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the Series B Bonds subject to such Submitted Sell Orders. As discussed above (see “Bidding by Broker-Dealer”), the Broker-Dealer may submit a Bid in an Auction to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the College’s or the Bond Insurer’s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions, there can be no assurance that a secondary market for the Series B Bonds will develop or, if it does develop, that it will provide Existing Holders the ability to resell the Series B Bonds on the terms or at the times desired by an Existing Holder. Goldman, Sachs & Co., in its own discretion, may decide to buy or sell the Series B Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Series B Bonds. However, the Broker-Dealer is not obligated to make a market in the Series B Bonds and may discontinue trading in the Series B Bonds without notice for any reason at any time. Existing Holders who resell between Auctions may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Series B Bond through a dealer which is not the Broker-Dealer for the securities, such Existing Owner’s ability to sell its security may be affected by the continued ability of its dealer to transact trades for the Series B Bonds through the Broker-Dealer.

The ability to resell the Series B Bonds will depend on various factors affecting the market for the Series B Bonds, including news relating to the College or the Bond Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Series B Bonds (whether related to

credit, liquidity or any other risk), the tax or accounting treatment accorded the Series B Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in “Securities and Exchange Commission Settlement” below) or press reports, financial reporting cycles and market conditions generally. Demand for the Series B Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

***Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions.*** The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 30 days notice to the Agency, the College and the Trustee (who shall give notice of the same to the Broker-Dealer) and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 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 Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest on the Series 2006B Bonds will be determined as described in the Bond Indenture.

***Securities and Exchange Commission Settlement.*** On May 31, 2006, the U.S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of fifteen firms, including Goldman, Sachs & Co., that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, Goldman, Sachs & Co. agreed to pay a civil penalty. In addition, Goldman, Sachs & Co., without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Goldman, Sachs & Co. to conduct the auction process in accordance with disclosed procedures. Goldman, Sachs & Co. can offer no assurance as to how the settlement may affect the market for auction rate securities or the Series B Bonds.

## **Redemption Provisions of the Series B Bonds**

***Mandatory Sinking Fund Redemption of the Series B Bonds.*** The Series B Bonds in the PARS Mode shall be subject to mandatory sinking fund redemption in an amount equal to the annual Amortization Requirement therefor, are subject to redemption by lot, on November 1, 2007 and annually thereafter on each November 1 (each an “Amortization Date”), at the principal amount thereof plus interest accrued to the date fixed for redemption.

While in PARS Mode, if a scheduled sinking fund redemption date is not an Interest Payment Date, the Series B Bonds will be redeemed on the Interest Payment Date immediately preceding the scheduled sinking fund redemption date. The Series B Bonds in a Special Auction Period may be redeemed prior to the end of the Special Auction Period pursuant to the sinking fund redemption schedule.

The Series B Bonds shall be subject on each applicable Amortization Date to mandatory sinking fund redemption in amounts equal to the annual Amortization Requirement as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2007	\$1,700,000	2017	\$2,775,000
2008	1,775,000	2018	2,925,000
2009	1,875,000	2019	3,075,000
2010	1,975,000	2020	3,225,000
2011	2,075,000	2021	3,400,000
2012	2,175,000	2022	3,575,000
2013	2,300,000	2023	3,750,000
2014	2,400,000	2024	3,925,000
2015	2,525,000	2025	4,125,000
2016	2,650,000	2026†	4,350,000

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† Final Maturity.

***Optional Redemption of the Series B Bonds.*** Series B Bonds in the PARS Mode are subject to redemption, in whole or in part, in Authorized Denominations, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, to the Redemption Date, on the Interest Payment Date immediately following the end of an Auction Period; provided that after any optional redemption there shall be not less than \$10,000,000 in aggregate principal amount of any Bonds unless otherwise consented to by the Broker-Dealers.

***Notice of Redemption.*** Notice of each redemption of Series B Bonds is required to be given by first class mail, postage prepaid, not less than 30 days prior to the redemption date to each registered owner of the Series B Bonds to be redeemed at the address recorded on the bond register, but failure to mail any such notice or any defect therein shall not affect the validity of the proceedings for such redemption with respect to owners to whom notice was duly given. If notice of redemption of any Series B Bond is given, such Series B Bond will be due and payable on the redemption date and, if funds sufficient to pay the redemption price are deposited with the Bond Trustee on such date, will cease to accrue interest after the date fixed for redemption. Any notice of redemption, except a notice of redemption with respect to an Amortization Requirement, may state that the redemption to be effected is conditioned upon the receipt by the Bond Trustee on or prior to the redemption date of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed. In the event that such notice contains such a condition and sufficient moneys are not received by the Bond Trustee on or prior to the redemption date, the redemption will not be made and the Bond Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

During a PARS Mode, if any Series B Bonds are to be redeemed and such Series B Bonds are held by a Securities Depository, the Agency shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled “Publication Date for Securities Depository Purposes” and such date shall be three Business Days after the Auction Date immediately preceding such redemption date and (ii) an instruction to Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such Auction Rate Bonds to be redeemed from each such position (the “Securities Depository Redemption Information”), and (y) notify the Trustee immediately after such determination of the (1) positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such Auction Rate Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information. The Trustee shall forward such notice of redemption to the Auction Agent promptly.

### **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each of the Bonds in their respective aggregate principal amounts and will be deposited with DTC.

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

and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payment of principal or redemption price of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Agency or the Bond Trustee on payable dates in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC nor its nominee, the Bond Trustee, or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Agency or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AGENCY BELIEVES TO BE RELIABLE, BUT NONE OF THE AGENCY, THE COLLEGE OR THE UNDERWRITER TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY THE AGENCY, THE COLLEGE, THE BOND TRUSTEE, OR THE UNDERWRITER AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE AGENCY, THE COLLEGE, THE BOND TRUSTEE OR THE UNDERWRITER TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE AGENCY, THE COLLEGE, THE BOND TRUSTEE NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR FOR ANY PRINCIPAL, PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON. THE AGENCY HAS NO TAXING POWER.

#### **RELEASE OF BOND INDENTURE**

If (a) the Bonds have become due and payable in accordance with their terms and the whole amount of the principal and premium, if any, and the interest so due and payable has been paid; or (b) the Bond Trustee holds sufficient money or Defeasance Obligations the principal of and interest on which, when due and payable, will provide sufficient money to pay the principal of, and redemption premium, if any, and the interest on all Bonds then outstanding to the maturity date or dates of such Bonds or to the date or dates specified for the redemption thereof or a combination of such payment and redemption; and (c) if Bonds are to be called for redemption, irrevocable instructions to call the Bonds for redemption have been given by the Agency to the Bond Trustee; and (d) sufficient funds have been provided or provision made for paying all other obligations payable by the Agency under the Bond Indenture, then the right, title and interest of the Bond Trustee in the Notes, the funds and accounts mentioned in the Bond Indenture shall thereupon cease, determine and become void, and upon receipt of an opinion of counsel in accordance with the Bond Indenture, the Bond Trustee shall release the Bond Indenture.

With respect to Defeasance Obligations delivered pursuant to this provision, the Bond Trustee shall also be required to provide the notice to Bondowners as required by the Bond Indenture.

#### **PLAN OF FINANCE**

The College is issuing the Bonds (i) to pay or reimburse a portion of the costs of the Project, (ii) to currently refund \$55,020,000 of the Agency's outstanding Revenue Bonds (Middlebury College Project) Series 1996 maturing after 2006 (the "Refunded Bonds"), and (iii) to pay the costs of issuing the Bonds. The proceeds of the Bonds to be applied to the refunding will redeem the Refunded Bonds on November 1, 2006.

In connection with the Series B Bonds, the College has entered into an interest rate swap transaction (the "Swap") with Goldman Sachs Mitsui Marine Derivative Products, L.P. (the "Swap Provider"), an affiliate of the Goldman Sachs Group L.P. In general, the Swap provides that, subject to the terms and conditions thereof, the Swap Provider will pay to the College a floating rate based on the London Interbank Offered Rate (LIBOR) and the College will pay a fixed rate, in each case with reference to a notional amount equal to the principal amount of the Refunded Bonds plus certain issuance costs. Payments under the Swap commence in November, 2006 and end in November, 2026. Under certain circumstances, the Swap is subject to termination prior to maturity of the Bonds and prior to the scheduled termination date thereof.

## THE PROJECT

The Project involves (a) the acquisition, construction, renovation and equipping of the College's existing facilities, including the renovation of the College's Starr Library to convert it from an 84,000 square-foot library building to the "Axinn Center", an 80,000 square foot building comprised of faculty offices, classrooms and other facilities for academic and College use, (b) site development for the Axinn Center, including a new steam and electrical service, new subsurface storm and sanitary services and a new chilled water service, (c) construction of a new biomass (woodchip burning) gasification heating and power system serving the College's main campus, and related site work, and (d) the improvement of steam lines serving the College campus, renovations of various building roofs, office and classroom buildings, and the construction of carbon monoxide detection systems in residence halls.

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

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

	<u>Series A Bonds</u>	<u>Series B Bonds</u>	<u>Total</u>
<u>Sources of Funds</u>			
Principal Amount of the Bonds	\$35,425,000	\$56,575,000	\$92,000,000
Original Issue Premium	1,269,278	-	1,269,278
Equity Contribution	-	1,832,299	1,832,299
Total Sources of Funds	<u>\$36,694,278</u>	<u>\$58,407,299</u>	<u>\$95,101,577</u>
<u>Uses of Funds</u>			
Deposit to Construction Fund	\$36,363,229	-	\$36,363,229
Refunding of Refunded Bonds	-	\$57,607,271	57,607,271
Costs of Issuance (including bond insurance premium)	111,483	511,926	623,409
Underwriter's Discount	219,566	288,102	507,668
Total Uses of Funds	<u>\$36,694,278</u>	<u>\$58,407,299</u>	<u>\$95,101,577</u>

## BOND INSURANCE FOR THE SERIES B BONDS

Ambac Assurance Corporation ("Ambac Assurance") has supplied the following information for inclusion in this Official Statement. No representation is made by the Agency or the Underwriter as to the accuracy or completeness of this information.

### Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Series B Bonds, effective as of the date of issuance of the Series B Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Series B Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Series B Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series B Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series B Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Series B Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series B Bonds, the insured payments will be

made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Bond Trustee has notice that any payment of principal of or interest on a Series B Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Bond Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Series B Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series B Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series B Bonds, appurtenant coupon, if any, or right to payment of the principal of or interest on such Series B Bonds and will be fully subrogated to the surrendering holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of the Series B Bonds at auctions or losses suffered as a result of a holder's inability to sell the Series B Bonds.

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,599,000,000 (unaudited) and statutory capital of approximately \$6,000,000,000 (unaudited) as of June 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Series B Bonds or the advisability of investing in the Series B Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official

Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006; and
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

### **TAX EXEMPTION**

#### **Opinion of Bond Counsel**

In the opinion of Sidley Austin LLP, New York, New York, Bond Counsel, based on existing statutes, regulations and court decisions and assuming compliance by the College and the Agency with certain requirements of the Code and covenants of the Loan Agreement regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the U.S. Treasury, if required, interest on the Bonds is not includable in the gross income of the owners of the Bonds for purposes of federal income taxation. The form of the opinion to be delivered by Bond Counsel is set forth in Appendix D to this Official Statement. Failure by the College or the Agency to comply with their respective covenants to comply with the provisions of the Code regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their date of issuance. The covenant of the Agency



described above does not require the Agency to make any financial contribution for which it does not receive funds from the College. Bond Counsel will express no opinion as to the exclusion from gross income of the interest on the Bonds for federal income tax purposes to the extent that the exclusion from gross income of the interest on the Bonds for federal income tax purposes is adversely affected as a result of the taking of any action upon the approval of counsel other than Bond Counsel.

Bond Counsel's opinion relies on certain representations made by the College with respect to certain material facts within the knowledge of the College which Bond Counsel has not independently verified and upon the accompanying opinion of Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, counsel to the College, that the College is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and that, to the best of such counsel's knowledge, the College has done nothing to impair such status. The tax exemption of interest on the Bonds is dependent upon, among other things, the status of the College as a "Section 501(c)(3) organization" and therefore the conclusion of Bond Counsel that such interest is excludable from gross income for federal income tax purposes is dependent, in part, upon the opinion of Dinse, Knapp & McAndrew, P.C.

### **Alternative Minimum Tax**

Interest on the Bonds will not be treated as a preference item in calculating the alternative minimum taxable income of individuals and corporations; however, interest on the Bonds will be included in the calculation of the alternative minimum tax liabilities of corporations.

### **Other Tax Consequences**

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income credit. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

Legislation affecting municipal securities is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Bonds.

The Act provides that the bonds of the Agency and the income therefrom shall at all times be exempt from taxation in the State of Vermont, except for transfer and estate taxes.

### **Original Issue Premium**

The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "Bond Premium." Bond Premium is amortized over the term of such Bonds for federal income tax purposes (or, in the case of a Bond with Bond Premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Bond). No deduction is allowed for such amortization of Bond Premium; however, Bond Premium is treated as an offset to qualified stated interest received on the Bonds. An owner of such Bonds is required to decrease his adjusted basis in such Bonds by the amount of amortizable bond premium attributable to each taxable year such Bonds are held. An owner of such Bonds should consult his tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption or other disposition of such Bonds and with respect to state and local income tax consequences of owning and disposing of such Bonds.

## **RATINGS**

Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies and Moody's Investors Service, Inc. have assigned ratings of "AA" and "Aa2", respectively, to the Series A Bonds, and will assign ratings of "AAA" and "Aaa", respectively, to the Series B Bonds based on the issuance of the Bond Insurance Policy by the Bond Insurer. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Ratings Group, a division of the McGraw-Hill Companies, 55 Water Street, New York, New York 10004 and Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007. Certain information and materials not included in this Official Statement were furnished to the rating agencies by the College. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions made by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency originally establishing the rating, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the owners of the Bonds any proposed revision or withdrawal of the ratings of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such ratings could have an adverse effect on the market price of the Bonds.

## **LEGALITY OF BONDS FOR INVESTMENT**

The Act provides that the bonds of the Agency are securities in which all public officers and bodies of the State of Vermont 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 and other fiduciaries in the State of Vermont may properly and legally invest funds in their control.

## **STATE NOT LIABLE ON BONDS**

The State of Vermont is not liable for the payment of the principal of, premium, if any, or interest on the Bonds, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Agency, and neither the Bonds nor any of the Agency's agreements or obligations shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provision whatsoever, nor shall the Bonds directly or indirectly or contingently obligate the State or any municipality or political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

## **COVENANT BY THE STATE**

Under the Act, the State of Vermont does pledge to and agree with the holders of the Bonds that the State will not limit or alter the rights vested in the Agency until the Bonds, together with interest thereon, with interest on any unpaid installment of interest, and of all costs and expenses incurred by the Agency in connection with the facilities or in connection with any action or proceedings by or on behalf of the Bondholders, are fully met and discharged.

## **UNDERWRITING**

The Series A Bonds will be purchased for reoffering by Goldman, Sachs & Co. (the "Series A Underwriter"). The Series A Underwriter has agreed to purchase the Series A Bonds at an aggregate discount of \$219,566 from the public offering price set forth on the cover page hereof. The Series A Underwriter has agreed to accept delivery and pay for all of the Series A Bonds if any are delivered. The obligations of the Series A Underwriter are subject to certain terms and conditions set forth in the purchase contract for the Series A Bonds. The College has agreed to indemnify the Series A Underwriter and the Agency against certain liabilities, including certain liabilities arising under federal and state securities laws. The Series A Underwriter may allow concessions from the public offering price to certain dealers, banks and others. After the initial public offering at the offering price or prices set forth on the cover of this Official Statement, the public offering price or prices may be varied from time to time by the Series A Underwriter.

The Series B Bonds will be purchased for reoffering by Goldman, Sachs & Co. (the “Series B Underwriter”). The Series B Underwriter will agree to purchase the Series B Bonds for a fee of \$288,102. The Series B Underwriter will agree to accept delivery and pay for all of the Series B Bonds if any are delivered. The obligations of the Series B Underwriter will be subject to certain terms and conditions set forth in the purchase contract for the Series B Bonds. The College will agree to indemnify the Series B Underwriter and the Agency against certain liabilities, including certain liabilities arising under federal and state securities laws. The Series B Underwriter may allow concessions from the public offering price to certain dealers, banks and others.

### **LEGAL MATTERS**

All legal matters incidental to the authorization and issuance of the Bonds by the Agency are subject to the approval of Sidley Austin LLP, New York, New York, Bond Counsel, whose approving opinion, in substantially the form set forth in Appendix D hereto, will be delivered with the Bonds. Certain legal matters will be passed upon by Deppman & Foley, P.C., Middlebury, Vermont, Counsel to the Agency, by Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, Counsel to the College and by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Counsel to the Underwriter.

### **ABSENCE OF MATERIAL LITIGATION**

There is not now pending any litigation against the Agency seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence, nor the title of the present members or other officers of the Agency to their respective offices, is being contested. There is no litigation pending against the Agency which in any manner questions the right of the Agency to make the loan to the College contemplated by the Loan Agreement.

See Appendix A with respect to any material litigation affecting the College.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”), the College has undertaken in the Loan Agreement, for the benefit of the Bondholders, to file certain annual financial and other information and notices required to be provided by Rule 15c2-12 with each Nationally Recognized Municipal Information Repository (“NRMSIR”) and with any Vermont state information depository (the “Undertaking”). The proposed form of the Undertaking is set forth in Appendix C hereto under the heading “Secondary Market Disclosure.” The Undertaking may be amended or modified under certain circumstances set forth therein. The Agency has not committed to provide any continuing disclosure to the Bondholders or to any other person. The College has never failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events.

### **MISCELLANEOUS**

The references herein to the Act, each Note, the Loan Agreement, and the Bond Indenture are brief descriptions of certain provisions thereof. Such descriptions do not purport to be complete and reference is made to such statute and documents for full and complete statements thereof. The agreements of the Agency with the owners of the Bonds are fully set forth in the Bond Indenture, and neither any advertisements of the Bonds or this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the principal trust office of the Bond Trustee.

The financial statements of the College for the year ended June 30, 2006, with comparative totals for 2005, have been audited by PricewaterhouseCoopers LLP, independent public accountants, to the extent and for the period

indicated in their report accompanying such financial statements. Such financial statements are set forth in this Official Statement as Appendix B.

The Agency has furnished the information contained herein which relates to the Agency. The College has reviewed the information contained herein which relates to the College and has approved all such information for use in this Official Statement.

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

VERMONT EDUCATIONAL AND HEALTH  
BUILDINGS FINANCING AGENCY

By: /s/ Robert Giroux  
Robert Giroux  
Executive Director

Approved:

THE PRESIDENT AND FELLOWS  
OF MIDDLEBURY COLLEGE

By: /s/ F. Robert Huth  
F. Robert Huth, Jr.  
Executive Vice President  
and Treasurer

October 25, 2006

## MIDDLEBURY COLLEGE

### General

The President and Fellows of Middlebury College (“Middlebury” or the “College”) is a private, non-profit institution of higher education offering bachelor’s degrees in the humanities, social sciences, foreign languages and the natural sciences, master’s degrees in biology and English, and master’s degrees and doctorates in several foreign languages. Located in the Champlain Valley of Vermont, Middlebury is one of the oldest residential, liberal arts colleges in New England. Founded in 1800, Middlebury was one of the first colleges in New England to become co-educational by admitting women in 1883.

Middlebury features several distinctive academic programs. Every summer the main campus is devoted to the study of nine foreign languages and cultures. On Middlebury’s Bread Loaf Campus, the six-week School of English is in session each summer, followed by the two-week Writer’s Conference. In addition, Middlebury operates numerous Language Schools abroad.

### Governance and Administration

#### *Board of Trustees*

The College is governed by a Board of Trustees, referred to in its Charter as “The President and Fellows.” The Board is comprised of the President of the College, up to eight Charter Trustees, six Alumni Trustees, and up to 20 Term Trustees. All trustees, except Alumni Trustees, are elected by the Board from nominations submitted by a committee of the Board. Alumni Trustees are elected from nominations submitted by the Alumni Association. Charter Trustees serve a maximum term of fifteen years. Alumni Trustees and Term Trustees serve five-year terms. No Trustee except the President of the College may serve a total of more than 15 years. Regular meetings of the Board are held quarterly.

Currently, there are 34 members of the Board of Trustees including the President of the College, who serves ex-officio. Their names, affiliations and terms of office are as follows:

#### Middlebury College Board of Trustees

<u>Name</u>	<u>Initial Year Elected</u>	<u>Term Expires</u>	<u>Principal Affiliation</u>
Ronald D. Liebowitz	2004	ex officio	President, Middlebury College Middlebury, VT

#### Charter Trustees

Frederick M. Fritz	1999	2014	Former Chair, BancBoston Capital, Inc. Boston, MA
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Nancy C. Furlong	1994	2009	Former Chair, Burlington, VT School Board Burlington, VT
Robert C. Graham, Jr.	1992	2007	President, James Graham and Sons Art Gallery New York, NY
Betty A. Jones	1994	2009	Former French Instructor, University of Louisville Louisville, KY
William H. Kieffer III	1992	2007	Former Senior Vice President, State Street Corporation Boston, MA
Roxanne M. Leighton	1996	2011	Founder (Retired) CB Sports Middletown, RI
Felix G. Rohatyn *	1969	2008	President, Rohatyn Associates LLC New York, NY

**Term Trustees**

Louis Bacon	2006	2011	President, Moore Capital Management New York, NY
Pamela Tanner Boll	2005	2010	Documentary Filmmaker, Winchester, MA
Richard S. Fuld, Jr.	2003	2008	CEO, Lehman Brothers New York, NY
Charles M. Gately	2006	2011	Chair, LaSalle Systems Leasing Chicago, IL
Olivier P.L. Halley	2006	2011	Board Member, CIES Management Development Programme Brussels, BE
Beverly L. Hamilton	2005	2008	Former President, ARCO Investment Management Company New York, NY

James R. Keyes	2000	2010	President, Citizens Bank Vermont Burlington, VT
Patrick L. McConathy	2005	2010	Owner, Phoenix Oil & Gas Ltd. Vail, CO
Stephen McDonald	2005	2008	Group Managing Director, Trust Company of the West South Pasadena, CA
Michael C. Obel-Omia	1997	2008	Head of Hunting Valley Campus University School Hunting Valley, OH
Kimberly Collins Parizeau	2003	2008	Wellesley, MA
Steven B. Peterson	2004	2009	Principal, The Peterson Companies Fairfax, VA
Elisabeth B. Robert	2004	2009	President, Vermont Teddy Bear Company Shelburne, VT
David A. Salem	2003	2008	President and CEO, The Investment Fund for Foundations Cambridge, MA
John Spencer	1998	2008	Professor Emeritus, Middlebury College Wainscott, NY
Deborah G. Thomas	2004	2009	Lecturer, African and American Studies - Yale University New Haven, CT
John R. Tormondsen	2002	2007	Principal, TORMAR Associates LLC Stamford, CT
James Edward Virtue	2005	2010	CEO, MidOcean Partners New York, NY
Marna C. Whittington	1999	2009	President, Nicholas - Applegate Yorklyn, DE
Kendrick R. Wilson III	1999	2009	Partner, Goldman, Sachs & Co. ** New York, NY

### Alumni Trustees

William D. Delahunt	2004	2009	US Representative, 10 <sup>th</sup> Congressional District of Massachusetts Washington, DC
Donald M. Elliman, Jr.	2005	2010	Former President, Kroenke Sports Denver, CO
Susan J. Scher	2006	2011	Managing Director, Goldman, Sachs & Co.** New York, NY
Jed A. Smith	2003	2008	Managing Partner, Catamount Ventures San Francisco, CA
Karen A. Stolley	2002	2007	Professor of Spanish Emory University Atlanta, GA
Linda Foster Whitton	2004	2009	Wilton, CT

\* Mr. Rohatyn was a trustee from 1969 to 1981 and is currently serving a three year term from 2005 to 2008.

\*\*Goldman, Sachs & Co. is serving as the Underwriter in connection with the issuance of the Series 2006 Bonds. The College believes that the participation of Goldman, Sachs & Co. in the offering is on terms no less favorable to the College than could be obtained from other parties.

### *Administrative Officers*

The Board appoints the President who is the chief executive officer of the College. Middlebury's present senior administrative officers are:

**Ronald D. Liebowitz** was appointed as the 16th president of Middlebury College in April 2004. Mr. Liebowitz had previously served as Provost and Executive Vice President of the College from 1997 until his appointment as President in 2004. From 1993-95, he was Dean of the Faculty, and from 1995-97, he was Vice President of the College. From February to June 2002, Mr. Liebowitz served as Acting President.

President Liebowitz, 49, joined the Middlebury faculty in 1984 as an instructor of geography and was promoted to associate professor in 1988 and full professor in 1993. He is a graduate of Bucknell University in Lewisburg, Pennsylvania, where he majored in economics and geography, and competed as a varsity swimmer. He received his doctorate in geography from Columbia University in 1985.

Recognized as an authority on Russian economic and political geography, Mr. Liebowitz has authored scholarly articles related to Soviet and Russian regional economic policy, a field of expertise made relevant most recently by Russian President Vladimir Putin's attempts to recentralize economic and political authority within the Russian state. Mr. Liebowitz, who spent two summers studying at Middlebury's Russian Language School, is the editor of three books and the recipient of a number of national fellowships, including fellowships from the National Council on Soviet and East European Research, the International Research and Exchange Board (IREX), the Social



Science Research Council (SSRC), the George F. Kennan Institute, and the Woodrow Wilson Center for International Scholars. He also served as the first board chair for the National Institute for Technology and Liberal Education (NITLE), an Andrew W. Mellon Foundation-supported consortium of 81 liberal arts colleges that serves as a catalyst for innovation and collaboration for national liberal arts colleges.

**Alison R. Byerly**, Vice President for Academic Affairs since 2004 and Professor of English, has also served as the Dean of the Faculty and held other administrative roles since 1998. She received her B.A. from Wellesley College in 1983, and received her M.A. (1984) and Ph.D. (1989) from the University of Pennsylvania.

She joined the Middlebury faculty in 1989. She has published articles on a variety of topics relating to the art and literature of the Victorian period. Her book, *Realism, Representation, and the Arts in Nineteenth-Century Literature*, was published by Cambridge University Press in 1997. She continues to teach in addition to her administrative duties.

**F. Robert Huth, Jr.**, Executive Vice President and Treasurer since 2004, previously served as Vice President for Administration and Treasurer from 1999 to 2004, was appointed Vice President for Administration and Chief Financial Officer in 1998. A graduate of Moravian College, Mr. Huth is a certified public accountant with an M.B.A. from Lehigh University. He came to the College with over 25 years of experience in finance and accounting, including serving as Senior Vice President for Administration at Moravian College. Mr. Huth is a member of the American Institute of Certified Public Accountants, and is a past President of the Eastern Association of College and University Business Officers (EACUBO) and a former Board member of the National Association of College and University Business Officers (NACUBO) from 2001 to 2004. He is currently First Vice President of the Addison County Chamber of Commerce Board, Treasurer of the Addison County Economic Development Corporation Board, and Vice President of Addison County Transit Resources Board.

**Patrick J. Norton**, Associate Vice President for Finance and Controller since 2006, was appointed Controller in 2003. A graduate of The University of Texas at Austin, Mr. Norton is a certified public accountant and certified treasury professional with an M.A. from Columbia University. He came to the College with nearly 16 years of experience in finance and accounting, focused in higher education, healthcare, and social services. Mr. Norton is a member of the American Institute of Certified Public Accountants, The Vermont State Society of CPAs, The Association of Financial Professionals, the Institute of Internal Auditors, and the National Association of College and University Business Officers (NACUBO).

**Michael D. Schoenfeld**, (Middlebury '73), Vice President for College Advancement, oversees fund raising and alumni relations at Middlebury College. A former high school science and math teacher, Mr. Schoenfeld returned to his alma mater in 1981 to coach the alpine ski team. In 1985, he gave up his coaching responsibilities to work full-time in the College's Development Office on the Campaign for Middlebury, a \$60 million capital fund drive. After the successful completion of the Campaign in 1990, he assumed the position of Director of Development, with oversight of Alumni Relations, Development, and Public Affairs. In 1995, he moved to the position of Dean of Enrollment Planning, with management responsibilities for Admissions and Financial Aid. Mr. Schoenfeld returned to fund raising in 2004 to assist in preparation for Middlebury's next comprehensive fund raising campaign.

**Robert S. Clagett**, Dean of Admissions, received a bachelor's degree from Brown University in 1973 and a master's in education from the Harvard Graduate School of Education in 1991. He taught German and history at Governor Dummer Academy in Byfield, Massachusetts, before joining the Harvard admissions office in 1984. He worked at Harvard for 21 years, becoming senior admissions officer and associate director of financial aid. During sabbatical years, he served as a faculty member at the International Schule in Hamburg, Germany, and as director of college counseling at the Lincoln School in San José, Costa Rica. In July 2005, he became Dean of Admissions at Middlebury College, where he is responsible for undergraduate admissions policy and for overseeing the operations of the admissions office.

**Michael E. Geisler**, C.V. Starr Professor of Linguistics and Languages, was appointed Dean of Language Schools and Schools Abroad in January of 2005. He received his *Staats examen* (M.A. equivalency) from the University of Mannheim, Germany, and his Ph.D. from the University of Pittsburgh in 1981. He joined the Middlebury faculty in 1992 as Associate Professor of German. In 1995 he was promoted to full professor.

Before assuming his current office, he served as chair of the German Department, chair of the Foreign Language Division and Associate Dean of the Faculty for Arts, Humanities, Languages and Literature. He has published two books and numerous articles on German media studies, German literature and on nationalism and national symbols. He is also co-editor of a special issue of *New German Critique* on German media culture.

### **Mission Statement**

The Middlebury College Board of Trustees adopted the following Mission Statement on March 2, 2006.

*At Middlebury College we challenge students to participate fully in a vibrant and diverse academic community. The College's Vermont location offers an inspirational setting for learning and reflection, reinforcing our commitment to integrating environmental stewardship into both our curriculum and our practices on campus. Yet the College also reaches far beyond the Green Mountains, offering a rich array of undergraduate and graduate programs that connect our community to other places, countries, and cultures. We strive to engage students' capacity for rigorous analysis and independent thought within a wide range of disciplines and endeavors, and to cultivate the intellectual, creative, physical, ethical, and social qualities essential for leadership in a rapidly changing global community. Through the pursuit of knowledge unconstrained by national or disciplinary boundaries, students who come to Middlebury learn to engage the world.*

This new mission statement reflects a significant goal identified in President Liebowitz's inaugural address of recognizing more prominently, and capitalizing more fully on, the unique strengths of the College that gradually emerged in the last century. Middlebury College is not simply an undergraduate institution of approximately 2,350 students. It also encompasses several graduate and specialized programs that take place during the summer and academic year, in the United States and in other countries. It includes nine intensive Language Schools that enroll approximately 1,300 students each summer, taught by 248 faculty members (including the nine Directors), seven Schools Abroad, which enroll more about 140 graduate students and 180 undergraduates yearly, the Bread Loaf School of English, which enrolls approximately 500 students at five sites; and the Bread Loaf Writers' Conference, with its approximately 230 attendees each summer at the Bread Loaf campus.

These programs offer great advantages, both educational and logistical, to the College. The Language Schools and Schools Abroad have solidified Middlebury's dominance in language learning and strength in international studies. The Bread Loaf programs embody a proud tradition in literature that is crucial to the College's traditional liberal arts identity. In addition, Middlebury College now has an affiliate, the Monterey Institute of International Studies located in California, with whom a relationship is beginning to develop. The affiliation with Monterey Institute of International Studies expands Middlebury's commitment to language study to graduate professional programs that demonstrate the importance of language mastery to many careers and forms of public service. See "The Monterey Institute of International Studies".

## Strategic Planning

In April 2004, then President-elect Ronald Liebowitz announced that the College would begin a strategic planning process that would be broadly inclusive and that would invite the participation of faculty members, staff, and students in unprecedented numbers. In January 2005, he announced the formation and membership of 15 strategic planning task forces and committees with more than 125 members. The task forces released their findings in May 2005. The Strategic Planning Steering Committee and President's Staff distilled more than 230 recommendations into 82 planning initiatives that were presented in the final plan which was unanimously adopted by the Middlebury Board of Trustees in May 2006.

The Middlebury plan, *Knowledge Without Boundaries*, focuses substantially on the human dimension of the College. Among the many recommendations identified through the planning process, three strategic goals stand out as critical to Middlebury's future development.

- *Strengthen support for a diverse student community.*
- *Strengthen the academic program and foster intensive student-faculty interaction.*
- *Reinforce the role of the Commons as a place to bring together academic and residential life.*

The first strategic goal is to attract an ever-stronger and more diverse student body to Middlebury. Improved financial aid packages with a reduced reliance on borrowing, especially for families with the greatest need, will help Middlebury College continue to attract the best students. The second strategic goal recognizes that intensive interaction between faculty and students is at the core of Middlebury's mission as a liberal arts college. Enhancing faculty resources will also strengthen the academic profile of the College by ensuring that faculty members are able to maintain the high level of scholarly and creative achievement that makes Middlebury a vibrant intellectual community. The third strategic goal of the plan addresses the continued development of Middlebury's residential Commons system, the goal of which is to provide a seamless interface between academic life and other spheres of students' lives. Currently, the infrastructure is completed for just two of the five Commons. When resources permit, the plan supports the strategically phased completion of the Commons infrastructure in the other three Commons.

The College estimates that full implementation of the Strategic Plan recommendations will add approximately \$14 million per year to the College's annual budget by 2012. The College is undertaking a substantial capital campaign to provide endowment and other resources to fund the implementation of the recommendations. (See "Gifts, Grants and Bequests"). In addition, the College may consider additional financings as part of the implementation plan. The College's financial capacity will dictate the pace at which the Strategic Plan recommendations are implemented.

## Facilities

Middlebury College is located on a hill overlooking a small Vermont village and the Champlain Valley, with the Green Mountains visible to the east and Adirondacks to the west. Most of the College's buildings are constructed of gray limestone or white marble in colonial architecture.

The main campus in Middlebury comprises over 50 buildings on approximately 300 acres of land. The buildings provide laboratories and classrooms, faculty and administrative offices, a language center, an auditorium, a conference center, an art building, a theater, an observatory, a science center, guest houses, an infirmary, a chapel, a student center, a fine arts center, and 60 student residences. The College also includes athletic grounds, a natatorium, a hockey arena, a golf course and a three and one-half kilometer lighted cross-country ski trail. The Bread Loaf Campus is located 12 miles from the main campus near Bread Loaf Mountain. The mountain campus of 1,700 acres includes a residential building with a dining hall, the Davidson Library, a theater, 19 cottages and a large barn containing eight classrooms and a large social room. The Bread Loaf Campus is the site of the Carroll and Jane Rikert Ski Touring Center, a scenic and advanced trail system of over 35 kilometers for cross-country skiing. Located a short distance from the Bread Loaf Campus is the Middlebury College Snow Bowl with three chair lifts, ski shelter and 14 alpine trails and slopes on 763 acres of land.

### *Academic Facilities*

The Middlebury Library system has over one million holdings comprised of books, periodicals, government documents, music and video recordings, microfilm and microfiche, and provides access to digital books, and online music and periodical subscriptions. Access to the library's online catalog and circulation system is possible from the internet and campus network, including every residence hall room and faculty office. The College subscribes to over 2,000 periodicals, many now available online. Special collections include the Abernathy American Literature Collection, with many first editions and manuscripts and a collection of works by Robert Frost; the College Archives; and the Flanders Ballad Collection of traditional New England folk music. Middlebury has been a selective depository for U.S. Government documents since 1884. The College's new 143,000 square foot main library opened in June 2004, a state-of-the-art, environmentally sustainable facility with a total of 725 study seats, including 300 individual study carrels for students and faculty, 32 media viewing stations, 6 classroom spaces complete with computer and audio-visual presentation systems, 10 group studies, 2 media viewing rooms, 10 faculty offices, a periodical reading room that doubles as a lecture area, two large reading rooms on the upper level providing magnificent views of the campus and the surrounding village and countryside, 60 laptops and a variety of digital cameras and projectors that may be borrowed from the circulation desk, 128 computers available for use throughout the building, 2,000 network jacks for public and staff use throughout the facility, and 100% wireless computer/internet access throughout the building. The Music Library houses some 50,000 recordings, scores and music reference works, along with 20 listening stations (eight which also have computers), four listening rooms, and study space. The Armstrong Science Library has over 100,000 volumes, including about 300 journals in biology, chemistry, geology and physics, 35,000 microforms, and 81,000 maps.

In 1992, the College dedicated the Center for the Arts to provide needed space and facilities for the Middlebury Museum, the music department, a 400-seat concert hall, a dance-studio auditorium and the Seeler Studio Theater, a black box theater.

The Sunderland Language Center contains a computer lab and classroom, as well as three interactive learning centers with multi-media workstations for the delivery of interactive language programs and word processing in nine languages including Arabic, Russian, Japanese and Chinese. Satellite broadcasts of news and cultural programs from all over the world are received by the College and made available in many locations around the campus.

In the fall of 1999, the College opened Bicentennial Hall, an approximately 218,000 gross square foot state-of-the-art facility for the sciences. The structure houses the departments of biology, chemistry and biochemistry, computer science, geography, geology, physics and psychology. The building includes lecture halls, classrooms, laboratories, a science library, offices, and student/faculty research space. Bicentennial Hall's environmentally sensitive features are meant to be a fitting tribute to the study of the natural environment and related subjects that take place there.

### *Athletic Facilities*

Memorial Field House contains the Pepin Gymnasium for basketball, volleyball and badminton, as well as the Nelson Recreation Center, a modern fitness center, and training rooms. An energy-efficient natatorium with 50-meter pool and the Chip Kenyon '85 Arena, a 2,200 seat hockey arena that opened on January 16, 1999 are adjacent to Memorial Field House.

Outdoor facilities include 60 acres of playing fields for intramural and intercollegiate competition, as well as 16 outdoor tennis courts and three platform tennis courts. An 18-hole golf course is on campus, as well as a lighted 3.5 kilometer cross-country ski trail that is also used for running and jogging. Middlebury has its own alpine and Nordic skiing areas at the Snow Bowl and on the Bread Loaf Campus.

### *Residence Halls, Dining Facilities, and Student Center*

Nearly all undergraduates attending Middlebury reside in College-owned buildings. Approximately 2,280 students are accommodated in 23 residence halls and 32 residence houses that house from three to 250 students. In addition, approximately 80 students reside in off campus housing. Some students choose special-interest houses such as the language houses. There are four dining halls on campus which operate on varied schedules. McCullough Student Center houses the offices of Campus Activities and Leadership, Student Employment and Volunteer Services, and provides space for a large social hall, the Grille, the MiddXpress convenience store, the post office, a game room, and the mail room.

In 2002, the College completed the construction of Ross Commons, a commons facility that includes both a residence hall as well as dining facilities on the site which lies to the south of Hadley/Milliken dormitory and to the west of Adirondack. The residence hall provided 67 new bedrooms in suites of four and single rooms. This building, which is five stories tall, lies along Route 125 at the southern edge of the site. The commons facility contains a variety of program spaces, but primarily provides a kitchen and dining room for up to 300 and administrative offices.

In 2004, the College completed the construction of Atwater Commons, which consists of two new residence halls totaling 155 beds in suite arrangements and a new dining hall seating 225 people. Atwater Commons was formerly composed of three buildings -- Coffrin Hall, Le Chateau and Allen Hall. The buildings completed in 2004 complement the existing structures and affirm Le Chateau as the "front door" of Atwater Commons.

### **Academic Programs**

The College offers a broad curriculum during the academic year, as well as language programs abroad, summer language programs, and summer programs in English and writing. During each academic year, the College enrolls full-time students in programs leading to the Bachelor of Arts degrees and, a handful of M.A. degrees in the sciences. Many students in the Bread Loaf School of English, the C.V. Starr Middlebury Language Schools Abroad, and the summer language programs pursue Master of Arts, Master of Letters, or Doctor of Modern Languages degrees. Other students in the Language Schools earn undergraduate or graduate credits.

#### *The Undergraduate Curriculum*

The purpose of a liberal arts education at Middlebury is to give every student a broad understanding of human thought and experience and detailed knowledge of at least one area of intellectual inquiry. In keeping with this purpose, students work intensively in one or more departments and complete requirements and electives in fields outside their area of specialization. All students must complete a set of distribution requirements that encompass seven academic categories and four courses in different cultures and civilizations. Students must also complete two writing-intensive courses before the end of their junior year. One of these is a first-year seminar, taken in the student's first semester at Middlebury, with a faculty member who also serves as the academic advisor for the students enrolled in the seminar.

Students choose a major no later than the end of their third semester in one of the College's 45 established majors in academic departments and in interdisciplinary programs. The requirements for the baccalaureate degree are generally completed within eight semesters. The annual calendar of the College consists of a 13-week Fall Term, a four-week Winter Term, and a 13-week Spring Term, plus two one and one half week final examination periods. Students take four courses in each 13-week term and a single course during the Winter Term. A total of 36 course credits is required for graduation.

In part because Middlebury attracts students interested in its strong language programs, international academic programs have been developed. The International Studies major includes programs in East Asian Studies, Russian and East European Studies, Latin American Studies, and European Studies. This major has a strong foreign language element, and requires study abroad. Students from each area of study come together for senior work in a

team-taught senior seminar. Other areas of special academic emphasis in the undergraduate curriculum include environmental studies and literature.

### *Languages at Middlebury*

Since the summer of 1915, the main campus has been devoted each summer to the intensive study of languages ranging from beginning to graduate and post-graduate levels. The summer language schools offer programs in German, French, Spanish, Italian, Russian, Chinese, Japanese, Arabic, and Portuguese. All programs of study at the summer language schools emphasize the development of language skills and the understanding of other cultures. All classes, from beginning courses through the doctoral level, are taught in the foreign language. Advanced programs feature study in culture, history, language pedagogy, linguistics, literature, music, and theater.

### *Schools Abroad*

During the academic year, the Middlebury College Schools in Argentina (Buenos Aires and Tucumán), Brazil (Belo Horizonte and Niterói), Chile (Concepción, La Serena, Santiago, Temuco, Valdivia, and Valparaíso), China (Hangzhou), France (Paris and Poitiers), Germany (Berlin and Mainz), Italy (Ferrara and Florence), Mexico (Guadalajara and Xalapa), Russia (Irkutsk, Moscow, and Yaroslavl), Spain (Getafe, Logroño, Madrid, and Segovia), and Uruguay (Montevideo) offer courses appropriate to the undergraduate degree program, and in Berlin, Florence, Madrid, Mainz, Moscow, and Paris to graduate degree programs.

Most Middlebury students engaged in the study of a modern language, either as part of a language and literature or culture major, or in conjunction with an international studies major, spend part or all of their junior year in one of the Schools Abroad. Study abroad allows students to profit from a rich cultural experience and to achieve a level of academic and personal growth not easily attained in familiar surroundings. The Schools Abroad offer varied intellectual challenges, often in conjunction with foreign university systems, while emphasizing as high a degree of academic and social immersion as is possible and encouraging student independence, all of which, it is hoped, will make possible an experience that will impart special meaning and depth to the understanding of foreign languages and cultures.

### *Graduate Programs*

Middlebury College awards the Master of Arts and Doctor of Modern Languages degrees in French, Spanish, German, Italian, and Russian. The Master of Arts and Masters of Letters are awarded to students completing degree programs in the Bread Loaf School of English. In addition, the College awards the Masters of Science degree in biology.

## **The Monterey Institute of International Studies**

The Monterey Institute of International Studies (MIIS), located in Monterey, California, includes the Graduate School of International Policy Studies, the Graduate School of Translation and Interpretation, the Fisher Graduate School of International Business and the Graduate School of Language and Educational Linguistics and enrolls approximately 700 students. MIIS also includes the internationally renowned Center for Nonproliferation Studies and Center for East Asian Studies.

Prior to 2004, MIIS had experienced financial difficulties and had been seeking an affiliation or similar transaction with another educational institution to continue to expand MIIS's program offerings and improve its financial performance. In 2005, the College and MIIS determined that an affiliation of the two institutions could provide both with improved educational opportunities by coordinating their complementary programs to establish the leading academic programs in international studies and foreign languages. They also determined that an affiliation could enable Middlebury to provide financial and administrative support to MIIS, creating financial efficiencies for MIIS, enabling improvements in MIIS's physical facilities and systems, and fostering improved enrollment growth for MIIS. Accordingly, Middlebury and MIIS pursued the affiliation as a means of promoting the educational missions of each of their organizations.

Middlebury College and MIIS entered into an affiliation in December 2005, establishing a relationship between the two institutions by which they can combine their strengths and expertise in international education, language teaching, and cultural studies. This affiliation allows both institutions to be at the forefront of shaping international education, based on language proficiency and cultural understanding. It also provides additional networking opportunities for students and alumni and it will likely lead to innovative research and teaching opportunities for faculty from both Middlebury and Monterey.

Pursuant to the affiliation arrangement, MIIS remains an independent 501(c)(3) non-profit corporation. Middlebury College, as sole member of the MIIS corporation, and acting through its Board of Trustees, appoints the members of the Board of Trustees of MIIS and has certain other governance rights. Additionally, so long as the affiliation remains in place, Middlebury College has agreed to provide certain financial support to MIIS, if necessary. The affiliation requires financial statement consolidation with Middlebury due to the governance structure by which the affiliation has been established. Financial statements included in this official statement are for Middlebury College only; MIIS is not obligated with respect to the Series 2006 Bonds. Middlebury maintains the ability to fully acquire MIIS or separate completely from its current affiliation.

As a result of the affiliation with Middlebury, \$9 million in contributions were made by Middlebury donors for the purpose of rebuilding MIIS's infrastructure in the areas of facilities, information technology, faculty and staff positions, and financial aid. In addition, Middlebury has provided \$400,000 in funding in the form of subordinated debt for the sole purpose of paying down MIIS's fully utilized line of credit of \$2.5 million.

The table below sets forth a summary of MIIS financial information for the last five years.

### **Monterey Institute of International Studies Financial Information**

	Fiscal Year Ended June 30				
	2006	2005	2004	2003	2002
<b><u>Balance Sheet</u></b>					
Unrestricted Net Assets*	\$(1,192,200)	\$(869,623)	\$(2,985,033)	\$(5,064,493)	\$(401,023)
Total Net Assets	13,016,758	7,922,711	6,904,154	5,400,920	10,629,635
Total Cash and Investments	14,179,544	10,357,806	7,179,233	4,435,322	8,568,056
Total Long-Term Debt	24,523,797	23,752,284	26,234,881	28,656,765	29,133,891
Plant, Property and Equipment**	18,840,810	19,338,154	20,246,345	24,867,412	25,133,072

\* In 2006, unrestricted net assets includes a one time \$363,000 charge for Conditional Asset Retirement Obligation.

\*\* In 2006, the estimated fair market value of MIIS-owned property is \$45,000,000.

### **Operations**

Total Revenue	\$31,559,592	\$23,342,727	\$23,359,002	\$22,463,148	\$21,011,743
Total Expense	<u>26,109,919</u>	<u>22,326,095</u>	<u>23,267,337</u>	<u>27,672,517</u>	<u>28,993,395</u>
Total Change in Operating Net Assets	\$5,449,673	\$1,016,632	\$91,665	\$(5,209,396)	\$(7,981,652)

### **Middlebury College Faculty and Staff**

#### *Faculty*

For the academic year starting Fall 2005 the faculty had a full-time teaching equivalent of 254. Approximately 87 percent of the faculty holds doctorates or terminal degrees, and although the primary focus of their work is on teaching, the faculty is active in scholarly research and writing. The College plans to hire additional faculty to reduce the student/faculty ratio to 8:1.

The following table provides data pertaining to the Middlebury faculty (excluding the summer Language Schools) for the past five years, including the faculty/student ratio expressed per full-time teaching equivalent (“FTE”):

<u>Fall</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Full-Time Faculty	254	231	219	218	215
Part-Time Faculty*	46	11	67	67	66
Faculty FTE	269	235	241	240	237
Student FTE	2,431	2,357	2,402	2,276	2,282
Faculty/Student Ratio	9:1	10:1	10:1	9:1	10:1

\* Part-Time Faculty count as one-third of an FTE.

In 2006, the summer Language Schools maintained a faculty of 248 (including the nine Directors), most of whom taught their native language.

### *Staff*

As of December 31, 2005 the College had 762 full-time staff employees and 267 part-time staff employees. These figures include administrative staff and officers not on faculty appointment. The College’s employees are not unionized.

### **Student Enrollment**

Interest in applying to Middlebury has reached unprecedented levels. Applications have increased a total of 17 percent since 2002-03. The quality of the applicant pool has also increased steadily over this same time period, with 82 percent of the Class of 2010 ranked in the top 10 percent of their high school class and average SAT scores of 2055 under the new scoring system with three SAT tests. Early decision applications have also increased each year over this period, suggesting that Middlebury is a first choice college for many students.

The following table presents undergraduate enrollment data for the past five years and projections for the upcoming academic year.

	<u>2006-07*</u>	<u>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>
Number of Full Time Students <sup>1</sup> ....	2,368	2,420	2,331	2,391	2,275
Number of Applications .....	6,184	5,256	5,041	5,298	5,278
Number of Acceptances .....	1,506	1,494	1,537	1,476	1,654
Number of Matriculants.....	565	553	577	580	585
Graduation rates <sup>2</sup> .....	92%	92%	91%	90%	90%
Freshman in top 10% of HS Class .....	82%	84%	77%	80%	74%
Average SAT scores .....	2055 <sup>3</sup>	1350	1350	1335	1348

\* Projected – official census is done at the end of the add-drop period in mid-October. As of September 29, 2006 there were 565 matriculants for the 2006-2007 school year.

<sup>1</sup> Fall semester, on campus

<sup>2</sup> Percent of matriculated first-year students who received a bachelor's degree from the College within six years.

<sup>3</sup> New SAT scoring includes third test.



The summer Language Schools have enrolled over 46,000 students since being founded in 1915. The table below sets forth the enrollment figures for the summer Language Schools:

	Summer <u>2006</u>	Summer <u>2005</u>	Summer <u>2004</u>	Summer <u>2003</u>	Summer <u>2002</u>
Summer Language Schools	1,330	1,302	1,242	1,187	1,187

### **Tuition and Fees**

Middlebury students are normally required to live on campus and dine in College facilities. The College charges a single comprehensive fee that includes room and board, tuition and other fees. The current goal of the College is to limit the rate of increase in the comprehensive fee to inflation plus one to two percent. The comprehensive fee for the past five years was as follows:

2006-2007 .....	\$44,330
2005-2006 .....	42,120
2004-2005 .....	40,400
2003-2004 .....	38,100
2002-2003 .....	35,900

In addition, the College collects fees, including tuition and room and board fees, in connection with the summer programs and the schools abroad. In 2007, the aggregate fees charged to each student enrolled in the summer program will range from \$5,980 to \$8,077, depending on the length of the program. The tuition fee for a full year of study at the schools abroad ranged from \$15,960 to \$24,000.

### **Financial Aid**

Middlebury's policy is to admit the most highly qualified students regardless of their families' finances and the College meets the full demonstrated financial need of all of its undergraduate students. Admissions decisions at Middlebury are not influenced by applications for financial aid. The Board of Trustees can amend this policy at any time in the future if it is required financially.

Middlebury awarded nearly \$29 million in institutional aid during 2005-06 for its undergraduate and summer Language Schools aid populations. The following table indicates the distribution of Middlebury College funds:

	<u>2005-06</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2002-03</u>	<u>2001-02</u>
Undergraduate On-Campus & Students Abroad	\$25,778,500	\$23,292,000	\$20,897,000	\$18,460,000	\$16,090,000
Summer Programs (Language Schools & Bread Loaf)	2,605,000	2,465,000	2,314,000	2,070,000	1,859,000
Other	<u>609,000</u>	<u>820,000</u>	<u>697,000</u>	<u>740,000</u>	<u>580,000</u>
TOTAL	<u>\$28,992,000</u>	<u>\$26,577,000</u>	<u>\$23,908,000</u>	<u>\$21,270,000</u>	<u>\$18,529,000</u>

In fiscal 2007 it is anticipated that \$29,921,000 of financial aid will be distributed by Middlebury.

About 42 percent of all Middlebury students receive need-based financial aid. Of the total aid in 2005-06, 72 percent was direct grant aid, 25 percent was in the form of loans and 3 percent was College employment. The average undergraduate financial aid student receives 72 percent of the required aid from the College in grants and loans and 28 percent from other sources. Among current first year students receiving financial aid, the size of the average financial aid package is over \$32,100, including, on average, \$27,400 in grant aid.

## Financial Activities

Middlebury's financial statements are prepared on the accrual basis of accounting and are in accordance with the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-for-Profit Organizations*.

The tables below set forth summaries of the College's financial information for the last five years.

### Operating Revenues and Expenses

	Year Ended June 30				
	2006	2005	2004	2003	2002
<b>REVENUES</b>					
Net Comprehensive and Other					
Student Fees .....	\$89,132,000	85,272,000	\$80,478,000	\$74,429,000	\$71,915,000
Contributions .....	29,281,000	14,802,000	24,003,000	26,487,000	8,839,000
Investment Return .....	47,886,000	44,667,000	38,975,000	39,625,000*	42,249,000
Other .....	<u>15,658,000</u>	<u>14,631,000</u>	<u>13,991,000</u>	<u>13,102,000</u>	<u>14,290,000</u>
	<u>\$181,957,000</u>	<u>\$159,372,000</u>	<u>\$157,447,000</u>	<u>\$153,643,000</u>	<u>\$137,293,000</u>
<b>EXPENSES AND CHARGES</b>					
Instruction .....	\$48,400,000	\$45,262,000	\$42,863,000	\$42,080,000	\$40,864,000
Other Educational and General .....	84,040,000	78,839,000	71,788,000	68,432,000	66,995,000
Auxiliary .....	34,527,000	31,612,000	28,614,000	29,138,000	27,119,000
Other .....	<u>84,000</u>	<u>159,000</u>	<u>132,000</u>	<u>126,000</u>	<u>154,000</u>
	<u>\$167,051,000</u>	<u>\$155,872,000</u>	<u>\$143,397,000</u>	<u>\$139,776,000</u>	<u>\$135,132,000</u>

\* In fiscal 2004, the College reclassified \$832,000 of investment return from operating to non-operating activities reported in fiscal 2003.

### Change in Net Assets

	Year Ended June 30				
	2006	2005	2004	2003	2002
Change in Net Assets	<u>\$79,791,000</u>	<u>\$32,842,000</u>	<u>\$117,668,000</u>	<u>\$4,973,000</u>	<u>\$(71,467,000)</u>

### Net Assets by Type

	Year Ended June 30				
	2006	2005	2004	2003	2002
Unrestricted	\$636,144,000	\$569,354,000	\$545,719,000	\$453,308,000	\$472,663,000
Temporarily Restricted	92,577,000	92,484,000	95,302,000	78,207,000	64,340,000
Permanently Restricted	<u>199,107,000</u>	<u>186,199,000</u>	<u>174,174,000</u>	<u>166,012,000</u>	<u>155,551,000</u>
Total	<u>\$927,828,000</u>	<u>\$848,037,000</u>	<u>\$815,195,000</u>	<u>\$697,527,000</u>	<u>\$692,554,000</u>

## Budgeting Procedures

Middlebury's annual budget is based on detailed budgets submitted by each of Middlebury's departments and reviewed and amended by the President and other senior officers prior to final approval by the Board. Responsibility for controlling expenditures within a department rests with a dean, faculty member or department head. Certain budgets are reviewed and monitored centrally by the Budget Director and/or Controller to assure conformance with Middlebury's fiscal policies, contractual obligations to program sponsors and restrictions of donors. Capital facilities requirements of Middlebury are reviewed in depth by the administration.

## Gifts, Grants, and Bequests

Middlebury successfully completed its \$200 million Bicentennial Campaign in 2001, raising \$213 million. This comprehensive campaign supported capital and program developments, including the largest interdisciplinary classroom building at the College, new facilities to enhance the athletics program, curricular innovation, and an increased infrastructure, including staff and faculty. In addition, the campaign increased endowment funds to enhance financial aid, enabling the College to continue to offer admission to qualified students regardless of their ability to pay.

Middlebury also successfully met a \$40 million challenge in 2003 to increase endowment for key objectives and current operations. In recognition of earlier achievements and confidence in the future direction of the College, Middlebury received a \$50 million commitment and a separate \$10 million commitment in May 2005 to be designated at the discretion of the president and to serve as a challenge to other donors to increase their support for the College.

In May 2006, the Middlebury College Board of Trustees unanimously approved a new strategic plan (see “Strategic Planning”) and the College is currently in the nucleus phase of a comprehensive capital campaign to meet the plan’s objectives. With approximately \$160 million raised in new gifts and pledges by September 2006, Middlebury is testing a tentative goal of \$500 million and anticipating a public launch of a five year campaign in the fall of 2008.

The following table shows the annual totals of the gifts and bequests received for the past five years. Currently, 57 percent of Middlebury's undergraduate alumni participate in annual giving to support the College.

### Gifts and Bequests

	Year Ended June 30				
	2006	2005	2004	2003	2002
Unrestricted	\$18,434,000	\$9,017,000	\$8,030,000	\$5,769,000	\$7,536,000
Temporarily Restricted	20,533,000	15,987,000	28,458,000	28,423,000	5,125,000
Permanently Restricted	<u>10,019,000</u>	<u>8,638,000</u>	<u>8,107,000</u>	<u>8,563,000</u>	<u>4,233,000</u>
Total	<u>\$48,986,000</u>	<u>\$33,642,000</u>	<u>\$44,595,000</u>	<u>\$42,755,000</u>	<u>\$16,894,000</u>

In addition, in the past five years, the College has received the following government, corporate and foundation grant amounts (excluding federally funded financial aid):

### Grant Amounts

	Year Ended June 30				
	2006	2005	2004	2003	2002
Grants	\$5,136,000	\$4,006,000	\$3,528,000	\$2,576,000	\$3,536,000

## Endowment and Investments

The Investment Committee of the Board of Trustees is responsible for oversight of the Endowment. The Endowment’s financial and investment objectives are to provide a stream of resources in support of the Middlebury College mission, to enhance its real (inflation-adjusted) purchasing power, and to provide support for Middlebury College capital investment needs as they arise. The Investment Committee exercises its oversight responsibility through an Investment policy and regular review of endowment performance.

The stated investment objective is to earn a long-term (10 years or longer) net investment total return at least equal to the sum of the College’s spending rate and the rate of growth in expenses at the College. The rate of growth in expenses reflects inflation pressures as well as real growth in the College’s program. The long-term spending rate target should not exceed five percent of the 12-quarter average market value of the spendable base of the endowment. While the five percent spending rule is a long-term objective, the spending rate may exceed the five percent threshold for short time periods. In February 2002, the College’s Board of Trustees approved investments in

facilities and authorized spending in excess of the 5% guideline until fiscal year 2009. Approved spending rates were 6.5% in fiscal 2003 and 2004, 7.1% for fiscal 2005, 6.6% for fiscal 2006, 6.0% for fiscal 2007, 5.5% for fiscal 2008 and 5.0% for fiscal 2009.

In light of the endowment's growing size and importance to the College, as well as the rising number and complexity of the investment strategies that well-managed endowments are increasingly employing, the College embarked on a comprehensive endowment management review starting in late 2004. In June 2005, the Investment Committee completed its comprehensive review of Middlebury's endowment management process and elected to hire Investure, LLC to serve as the external investment office charged with the investment management of the endowment. In conjunction with College finance staff, Investure is responsible for implementing and administering the Investment Policy and ensuring compliance with all Investment Policy guidelines and standards.

Investure was started in 2004 by former University of Virginia Chief Investment Officer Alice Handy and several colleagues who collectively are a very highly regarded team with extensive investment experience, particularly in alternative assets. The Investment Committee retains full fiduciary responsibility for the endowment and is actively involved in the decision-making process for asset allocation and manager selection. Middlebury staff manages the day-to-day relationship with Investure and other investment service providers.

The Investure relationship has provided the following results during the first year: strong performance (+13.6%) in FY06 led by several Investure-sourced managers, improved quality and timeliness of monthly reporting to Investment Committee, enhanced research capabilities, and the engagement of PricewaterhouseCoopers to perform an Agreed Upon Procedures Operational Due Diligence Review in October 2005 in which no major deficiencies were noted.

Summaries of investments recorded at the beginning and end of the fiscal year are shown in the table below. As of June 30, 2006, the \$847 million in total investments was comprised of the \$754 million commingled investment pool, \$78 million in charitable trusts and other separately invested assets, and \$15 million in excess operating cash reserves.

Net returns for commingled investment pool ending June 30, 2006 were 13.6% for 1 year, 15.9% for 3 years, 8.9% for 5 years, and 10.4% for ten years. As of August 31, the unannualized net return for the first eight months of calendar year 2006 was 7.2%.

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
		<u>%</u>		<u>%</u>
Money Market Funds	\$5,217,000	0.6	\$3,317,000	0.4
Equity Securities	342,188,000	40.4	347,763,000	45.8
Absolute Return	272,586,000	32.2	165,591,000	21.8
Debt Securities	70,319,000	8.3	71,878,000	9.5
Real Estate & Mortgages	30,118,00	3.6	23,069,000	3.0
Private Equity Partnerships	115,580,000	13.7	108,133,000	14.2
Due from broker (receivable)*	2,245,000	0.3	33,621,000	4.4
Other Investments	<u>8,309,000</u>	1.0	<u>6,018,000</u>	0.8
Total	\$846,562,000	100.0	\$759,390,000	100.0

\* This represents proceeds from a hedge fund of funds redemption that were payable to the College as of June 30, 2006.

As of August 31, 2006, the market value of the College's total investments was approximately \$855 million.

Neither principal nor income of funds currently on hand or received in the future that are restricted by the donor to purposes other than the general purposes of Middlebury College or the support of building projects may be used to make payments to the Vermont Educational and Health Buildings Financing Agency ("VEHBFA") pursuant to the Series 2006 Note or the Loan Agreement which are to be applied to debt service on the Series 2006 Bonds or to meet the claims of general creditors.

## **Long Term Debt**

The amount of the College's long-term debt at June 30, 2006 totaled \$241,814,000. The College's long term debt included the following:

- \$20,000,000 outstanding principal amount of VEHBFA Series 2002B bonds due on November 1, 2032
- \$54,805,000 outstanding principal amount of VEHBFA Series 2002A term bonds of which \$4,805,000 is due on November 1, 2022 and \$50,000,000 is due on November 1, 2032
- \$14,915,000 outstanding principal amount of VEHBFA Series 2002A serial bonds with annual payments increasing from \$740,000 in 2006 to \$1,440,000 in 2020
- \$60,000,000 outstanding principal amount of VEHBFA Series 1999 bonds due on November 1, 2038
- \$56,520,000 outstanding principal amount of VEHBFA Series 1996 bonds with annual payments increasing from \$1,415,000 in 2006 to \$4,330,000 in 2027
- \$34,570,000 outstanding principal amount of adjustable rate VEHBFA Series 1988A bonds, half of the principal amount of which are scheduled to mature on November 1, 2027 and half on May 1, 2028
- \$1,004,000 outstanding principal amount of other debt, mainly the Series 1968 and Series 1970 issues

In December 2003, the College sold an option to an interest rate swap counterparty selected by the Investment Committee to initiate an interest rate swap with the College on November 1, 2006, the first optional redemption date for the Series 1996 bonds. This transaction was not entered into for speculative purposes, but rather for the purpose of facilitating a current refunding of the College's Series 1996 bonds.

Under the terms of the swaption agreement, the College will pay a fixed rate of 4.76% and receive a variable rate based on 1-month London Interbank Offer Rate (LIBOR), on a notional amount of \$56,575,000. The College received an upfront premium payment of \$4,386,000 for selling the option and the premium is retained by the College regardless of whether or not the counterparty exercises the option. The College has the right to terminate the agreement at any time at the prevailing market rate.

### *Liquidity*

The College had an estimated \$636,144,000 of unrestricted net assets as of June 30, 2006. As of June 30, 2006, the College could liquidate approximately \$65,629,000 of its investments within three days. The College also has a \$25 million line of credit.

### *Real Estate*

The College has long maintained a policy of acquiring land adjacent to the main campus and the Bread Loaf campus to preserve a rural and natural environment. The College owns over 2,900 acres of land near the towns of Ripton and Hancock, including the Bread Loaf campus and the Snow Bowl. The College also owns 2,535 acres of contiguous land in Middlebury, Weybridge, Cornwall, and New Haven and an additional 300 acres of woodlands elsewhere in Vermont. Delineation Corporation, an affiliate of the College, owns 865 acres of mainly farmland in the towns of Middlebury, Weybridge, Cornwall, and New Haven.

Actual market value exceeds book value reflected in the College's financial statements. The inclusion of a fair market value for these lands would significantly change the asset valuation, but would not reflect the desire of the College to maintain these lands as undeveloped green spaces.

**Retirement Plan**

Retirement benefits for substantially all Middlebury employees are individually funded under a defined-contribution program with Teachers Insurance and Annuity Association of America and the College Retirement Equities Fund ("TIAA/CREF"). Under this arrangement, Middlebury and its employees make monthly contributions to TIAA/CREF to purchase individual retirement annuities. The College's portion of retirement expenses charged to operations were approximately \$7,475,000 and \$6,922,000 for the fiscal years ended June 30, 2006 and 2005, respectively.

**Insurance**

The College carries general liability insurance and casualty insurance policies covering property damage and loss in amounts which the College believes to be customary and adequate for a college of its size and character.

**Litigation and Certain Proceedings**

The College is subject to various suits in the normal course of its operations. No litigation or proceedings are pending or, to the knowledge of the College, threatened which would materially and adversely affect the financial condition of the College or its ability to make timely payment of all sums required under the Loan Agreement.

# **Middlebury College**

**Consolidated Financial Statements**

**President and Friends of Middlebury College**

**International Philanthropy**

**Delineation Corporation**

**June 30, 2006 and 2005**

**Middlebury College**  
**Index**  
**June 30, 2006 and 2005**

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PricewaterhouseCoopers LLP  
125 High Street  
Boston MA 02110  
Telephone (617) 530 5000  
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**Report of Independent Auditors**

To the President and Fellows of  
Middlebury College

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows present fairly, in all material respects, the financial position of Middlebury College (the "College") at June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the financial statements, the College adopted the provisions of Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (an interpretation of FASB Statement No. 143).

*PricewaterhouseCoopers LLP*

September 15, 2006

**Middlebury College**  
**Consolidated Statements of Financial Position**  
**June 30, 2006 and 2005**

<i>(in thousands)</i>	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 11,935	\$ 10,519
Accounts receivable, net (Note 3)	3,960	4,204
Contributions receivable, net (Note 3)	23,577	34,392
Inventories, prepaid expenses and other assets	2,848	3,289
Deposits with bond trustees	648	652
Notes receivable, net	14,590	15,069
Investments	846,562	759,390
Contributions receivable from remainder trusts	2,464	2,372
Interest in perpetual trusts held by others	24,146	23,208
Land, buildings and equipment, net (Note 5)	313,328	315,415
Total assets	<u>\$ 1,244,058</u>	<u>\$ 1,168,510</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 21,663	\$ 23,155
Funds held for others	3,675	3,596
Deferred revenue	23,352	23,500
Annuities and other split interest obligations	19,271	19,200
Refundable government loan funds	10,835	10,936
Long-term debt (Note 4)	237,434	240,086
Total liabilities	<u>316,230</u>	<u>320,473</u>
Commitments and contingencies (Note 10)		
<b>Net assets</b>		
Unrestricted	636,144	569,354
Temporarily restricted (Note 8)	92,577	92,484
Permanently restricted (Note 9)	199,107	186,199
Total net assets	<u>927,828</u>	<u>848,037</u>
Total liabilities and net assets	<u>\$ 1,244,058</u>	<u>\$ 1,168,510</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Middlebury College**  
**Consolidated Statements of Activities**  
**Year Ended June 30, 2006**  
**(with comparative totals for the year ended June 30, 2005)**

(in thousands)	2006			2005 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating revenues and other support</b>				
Comprehensive and other student fees	\$ 118,124	\$ -	\$ -	\$ 118,124
Less: Financial aid	(28,992)	-	-	(28,992)
Net comprehensive and other student fees	89,132	-	-	85,272
Contributions	9,121	20,160	-	14,802
Sponsored activities	5,136	-	-	4,006
Investment return				
Distribution	44,916	-	-	42,934
Other investment income	2,065	905	-	1,733
Other sources	10,443	79	-	10,625
Net assets released from restrictions	6,806	(6,806)	-	-
Total operating revenues and other support	167,619	14,338	-	159,372
<b>Operating expenses</b>				
Educational and general				
Instruction	48,400	-	-	45,262
Academic support	23,421	-	-	21,957
Student services	22,311	-	-	20,799
Institutional support	33,172	-	-	32,077
Sponsored activities	5,136	-	-	4,006
Total educational and general	132,440	-	-	124,101
Auxiliary enterprises	34,527	-	-	31,612
Other deductions	84	-	-	159
Total operating expenses	167,051	-	-	155,872
Change in net assets from operations	568	14,338	-	3,500
<b>Nonoperating activities</b>				
Endowment return, net of distribution	45,251	404	-	30,704
Contributions	9,313	373	10,019	18,840
Distribution of investment return	-	-	377	578
Other investment income	579	232	-	199
Change in value of deferred gifts	778	950	1,781	(841)
Gain (loss) on swap option	3,607	-	-	(4,326)
Other	(3,256)	(3,915)	731	(15,812)
Net assets released from restrictions	12,289	(12,289)	-	-
Total nonoperating activities	68,561	(14,245)	12,908	29,342
Increase in net assets before cumulative effect of change in accounting principle	69,129	93	12,908	32,842
Cumulative effect of change in accounting principle (Note 12)	(2,339)	-	-	-
Increase in net assets after cumulative effect of change in accounting principle	66,790	93	12,908	32,842
Net assets at beginning of year	569,354	92,484	186,199	815,195
Net assets at end of year	\$ 636,144	\$ 92,577	\$ 199,107	\$ 848,037

The accompanying notes are an integral part of these consolidated financial statements.

**Middlebury College**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2005**

(in thousands)	2005			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating revenues and other support</b>				
Comprehensive and other student fees	\$ 111,849	\$ -	\$ -	\$ 111,849
Less: Financial aid	(26,577)	-	-	(26,577)
Net comprehensive and other student fees	85,272	-	-	85,272
Contributions	9,017	5,785	-	14,802
Sponsored activities	4,006	-	-	4,006
Investment return				
Distribution	42,934	-	-	42,934
Other investment income	1,676	57	-	1,733
Other sources	10,600	25	-	10,625
Net assets released from restrictions	2,413	(2,413)	-	-
Total operating revenues and other support	155,918	3,454	-	159,372
<b>Operating expenses</b>				
Educational and general				
Instruction	45,262	-	-	45,262
Academic support	21,957	-	-	21,957
Student services	20,799	-	-	20,799
Institutional support	32,077	-	-	32,077
Sponsored activities	4,006	-	-	4,006
Total educational and general	124,101	-	-	124,101
Auxiliary enterprises	31,612	-	-	31,612
Other deductions	159	-	-	159
Total operating expenses	155,872	-	-	155,872
Change in net assets from operations	46	3,454	-	3,500
<b>Nonoperating activities</b>				
Endowment return, net of distribution	29,182	1,519	3	30,704
Contributions	-	10,202	8,638	18,840
Distribution of investment return	-	-	578	578
Other investment income	-	199	-	199
Change in value of deferred gifts	5	(1,044)	198	(841)
Loss on swap option	(4,326)	-	-	(4,326)
Other	(4,494)	(13,926)	2,608	(15,812)
Net assets released from restrictions	3,222	(3,222)	-	-
Total nonoperating activities	23,589	(6,272)	12,025	29,342
Increase in net assets	23,635	(2,818)	12,025	32,842
Net assets at beginning of year	545,719	95,302	174,174	815,195
Net assets at end of year	\$ 569,354	\$ 92,484	\$ 186,199	\$ 848,037

The accompanying notes are an integral part of these consolidated financial statements.

**Middlebury College**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

(in thousands)

	2006	2005
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 79,791	\$ 32,842
Adjustments to reconcile change in net assets to net cash used in operating activities		
Cumulative effect of change in accounting principle	2,339	-
Depreciation	17,857	15,950
Loss on disposal of buildings and equipment	270	176
Bad debt expense for contributions receivable	3,057	9,574
Change in value of deferred gifts	3,509	(841)
Realized and unrealized gains	(87,156)	(62,767)
Unrealized (gain) loss on swap option	(3,607)	4,326
Contributions receivable from remainder trusts	(92)	(51)
Interest in perpetual trusts	(938)	(356)
Capitalized interest	(252)	(743)
Amortization of bond issuance costs	56	55
Amortization of bond discount	175	176
Changes in assets and liabilities that increase (decrease) cash		
Accounts receivable	244	(1,086)
Contributions receivable	7,758	14,590
Inventories, prepaid expenses and other	385	(604)
Accounts payable and accrued expenses	(1,009)	2,366
Funds held for others	79	(2,404)
Deferred revenue	(148)	3,381
(Decrease) increase in liabilities related to deferred gifts	(1,172)	4,540
Permanently restricted contributions and investment gains	(11,976)	(10,257)
Net cash provided by operating activities	9,170	8,867
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	581,453	265,890
Purchases of investments	(581,469)	(264,295)
Purchases of property and equipment	(15,363)	(26,573)
Student loans granted	(3,113)	(3,482)
Student loans repaid	3,491	3,434
Net cash used in investing activities	(15,001)	(25,026)
<b>Cash flows from financing activities</b>		
Contributions and investment gain restricted for long-term investment	11,976	10,257
(Payments) receipts of refundable government loan funds	-	249
Use of deposits with bond trustees, net of earnings	4	14,717
Payments to annuitants for deferred gifts	(2,266)	(2,276)
Payments on bonds and notes payable	(2,827)	(2,494)
Increase (decrease) in cash overdraft	360	(47)
Net cash provided by financing activities	7,247	20,406
Net increase in cash and cash equivalents	1,416	4,247
Cash and cash equivalents at beginning of year	10,519	6,272
Cash and cash equivalents at end of year	\$ 11,935	\$ 10,519
<b>Supplemental data</b>		
Interest paid, net of interest capitalized	\$ 10,883	\$ 9,846
Gifts in kind	172	114
Assets acquired and included in accounts payable	905	585
Asset retirement obligation recognized	2,444	-
Asset retirement cost, net recognized related to asset retirement obligation	105	-

The accompanying notes are an integral part of these consolidated financial statements.

# **Middlebury College**

## **Notes to Consolidated Financial Statements**

### **June 30, 2006 and 2005**

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*(in thousands)*

#### **1. Background**

Middlebury College is a liberal arts college located in Middlebury, Vermont. The College was founded in 1800 and is a leading liberal arts college with an emphasis on literature, languages, international studies and environmental studies. Approximately 2,300 undergraduate students come from throughout the United States and fifty countries. Approximately 70% of the students are from outside New England.

Over half of the students spend at least one semester off campus, primarily outside of the United States. In addition to the Middlebury campus, the College has schools located in France, Germany, Italy, Russia, Spain, Latin America and China.

The College's summer program, enrolling more than 1,500 students, consists of nine language schools and the Bread Loaf School of English. Programs in French, German, Italian, Russian and Spanish are offered at both the undergraduate and graduate levels, with undergraduate courses offered in Arabic, Chinese, Japanese, and Portuguese. In addition to the summer courses offered in Vermont, the Bread Loaf School of English offers summer sessions in Alaska, New Mexico, North Carolina, Mexico, and at Oxford in the United Kingdom.

#### **2. Summary of Significant Accounting Policies**

##### **Basis of Statement Presentation**

The College has three affiliated entities, the Delineation Corporation (the "Corporation"), the President and Friends of Middlebury College and the International Philanthropy consolidated in these financial statements. The Delineation Corporation is a nonprofit organization founded for the purpose of holding property for the College. The College advances funds to the Corporation for expenses incurred for the maintenance of real property. The President and Friends of Middlebury College was formed for the purpose of recording catering and retail dining operations of the College. International Philanthropy is a nonprofit for the purpose of receiving international contributions from international sources.

All inter-entity accounts are eliminated. The financial statements are prepared on the accrual basis of accounting and present net assets and revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Permanently Restricted Net Assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the College. Generally, the donors of these assets permit the College to use all or part of the income earned on related investments for general or specific purposes.

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the College and/or passage of time, as well as unspent appreciation.

*Unrestricted Net Assets* - Net assets not subject to donor-imposed stipulations.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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*(in thousands)*

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by donor. Expirations in subsequent years of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

The College charges undergraduate students attending the Vermont campus a comprehensive fee which includes the cost of tuition, room and board and fees.

Other sources of operating revenues consist primarily of revenues from the College bookstore, golf course, Snowbowl, catering and snack bars, real estate rentals, laundry, photocopy and vending machines.

Nonoperating activities include net realized and unrealized gains and losses on investments, less amounts distributed for operating purposes, permanently restricted contributions for long-term investment, temporarily restricted contributions, retirement pay for past service, net assets released from restriction and the change in value of deferred gifts.

**Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include interest-bearing money market accounts not held for investment purposes. Cash equivalents have scheduled maturities of less than three months at the date of purchase and amount to \$11,935 and \$10,519 at June 30, 2006 and 2005, respectively.

**Inventories**

Inventories are stated at lower of cost or market on a first-in, first-out method.

**Land, Buildings and Equipment, Net**

Land, buildings, equipment, arts and antiques are recorded at cost at date of acquisition or fair value at date of gift. Depreciation is computed on the straight-line method by category as follows:

Category	Range of Estimated Useful Lives (Years)
Land improvements	25
Buildings and Middlebury houses	20-60
Equipment	3-20

Arts and antiques are maintained as collections and, accordingly, are not depreciated.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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*(in thousands)*

**Conditional Asset Retirement Obligations**

Asset retirement obligations ("ARO") are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the College records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The College derecognizes ARO liabilities when the related obligations are settled.

**Deferred Revenue**

Deferred revenue consists primarily of student fees related to the College and its language schools. This liability account consists mainly of the multiyear prepayment plan, summer school billing (net of financial aid), sponsored activity, deferred revenue, and the swaption deferred revenue (Note 7).

**Refundable Government Loan Funds**

This liability represents Perkins loan funds provided to students by the federal government through the College. The College is required to collect the loans on behalf of the federal government. The amounts due from the students are reported in the College's financial statements as notes receivable to the College and the amount due to the federal government, if the College should no longer participate, is reported as refundable government loan funds. It is not practicable to determine the fair value of student notes receivable because they are primarily federally sponsored student loans with U.S. government mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer and disposition.

**Contributions**

Contributions, including interest in perpetual trusts held by others, are recognized as revenue in the period received at the fair market value on the date of the contribution. Gifts of noncash assets are recorded at their fair market value on the date of the contribution. Conditional promises to give are not recorded as revenue until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenue.

Contributions of land, buildings and equipment without donor stipulations concerning the use of such long-lived assets are reported as nonoperating revenue of the unrestricted net asset class. Contributions of cash or other assets which a donor has stipulated be used to acquire land, building and equipment are reported as nonoperating revenue of the temporarily restricted net asset class if the donor does not stipulate how such long-lived assets are to be used. The temporary restrictions are considered to be released at the time when such long-lived assets are placed in service.



**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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(in thousands)

Terminology appearing in these financial statements that relate to contributions are described below:

***Contributions Receivable***

Contributions receivable include pledges that are recorded at their present value using a discount rate of 1.38% to 5.17% which represents the risk-free rate of return at the date when the pledges were recorded. An allowance is made for potentially uncollectible contributions based upon management's past collection experience and other relevant factors.

***Contributions Receivable from Remainder Trusts***

Several donors have established irrevocable trusts under which the College is a beneficiary but not the trustee. The present value of the portion of the trust to be distributed to the College upon the termination of the trust is recorded as contributions receivable from remainder trusts.

***Interest in Perpetual Trusts Held by Others***

Interest in perpetual trusts held by others include irrevocable trusts established for the benefit of the College whereby the principal is held in perpetuity by others and the earnings are remitted to the College. The interest in perpetual trusts is recorded at their fair value as of the date of the gift, and adjusted to fair value at year-end.

***Annuities and Other Split Interest Obligations***

Some donors have contributed assets to the College in exchange for a promise that the College will pay the donor or other beneficiaries a fixed amount or percentage of assets over their lifetimes. The present value of these promises is a liability of the College and is classified as annuities and other split interest obligations.

In addition, certain donors have made contributions to the College with the stipulation that their contributions be invested and all or a portion of the resulting income be paid to beneficiaries during their lifetimes. Upon the death of the named beneficiaries, the assets become the property of the College. The present value of the contributed assets is recognized as revenue at the time the assets are received and the difference between the assets contributed and the present value of the contributed assets is included in annuities and other split interest obligations.

***Estimated Fair Value of Financial Instruments***

The estimated fair value of the College's financial instruments approximates the carrying amount reported in the statements of financial position for cash and cash equivalents, investments, deposits with bond trustees, and accounts receivable and payable, except for certain investments and long-term debt (Note 4) and notes receivable (Note 3).

***Derivatives***

The College accounts for derivative financial instruments under Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 149, *Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities*, as amended. Under the provisions of SFAS No. 133, all derivatives except those qualifying for the normal purchase/normal sale exception are recognized on the balance sheet at fair value. Fair value is determined using current quoted market prices. The College has entered into forward oil purchase contracts with certain suppliers for the purchase of oil for their heating and cooling plant

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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*(in thousands)*

to hedge the price exposure for the College's major fuel source. These agreements have met the normal purchase/normal sale exception under SFAS 133 and, therefore, have not been recorded on the College's statement of financial position.

**Sponsored Activities**

Sponsored activities include various research and instructional programs funded by external parties including the federal government, foreign and state governments and private foundations.

**Auxiliary Enterprises**

Auxiliary enterprises include operations such as dining services, residential halls, College bookstore and computer sales, Snowbowl and the golf course. Revenues from auxiliary enterprises are included in other sources of operating revenues in the statement of activities.

**Functional Expenses**

Depreciation, operations and maintenance costs and interest are allocated to the functional expense categories reported within the operating section of the statement of activities. Depreciation and operations and maintenance costs are allocated based upon the use of facilities and equipment which is evaluated during periodic inventories. Interest is allocated based on specific identification of the use of debt proceeds.

**Tax-Exempt Status**

The College is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code.

**Reclassifications**

Certain amounts from the prior year have been reclassified in the accompanying financial statements to conform to current year presentation.

**3. Receivables**

**Accounts Receivable**

Accounts receivable consists of receivables for annual comprehensive fees, schools abroad and summer school room, board and tuition. The allowance for uncollectible amounts was \$331 in 2006 and \$358 in 2005.

**Contributions Receivable**

Contributions receivable consisted of the following at June 30, 2006 and 2005:

	2006	2005
Due less than one year	\$ 15,986	\$ 17,374
One to five years	11,165	23,692
More than five years	100	-
	<u>27,251</u>	<u>41,066</u>
Less: Discount and allowance	<u>(3,674)</u>	<u>(6,674)</u>
	<u>\$ 23,577</u>	<u>\$ 34,392</u>

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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*(in thousands)*

The allowance for uncollectible contributions receivable was \$2,213 and \$4,853 at June 30, 2006 and 2005, respectively.

During 2006 and 2005, the College charged to expense \$417 and \$11,375, respectively, of contributions receivable deemed uncollectible. These charges have been recorded in "nonoperating activities - other" in the College's statement of activities.

As of June 30, 2006 and 2005, the College has received conditional promises to give of \$38,000 and \$46,500, respectively. Because of their conditional nature, these gifts have not been recognized as contribution revenue by the College. During 2004, the College received a conditional pledge ("Challenge Grant") of \$50,000 from an anonymous donor. The intention of the gift is to encourage more contributions of all sizes to the College. As of June 30, 2006, the College has recognized \$12,000 towards this pledge from the donor. The remaining portion of the conditional pledge will be fulfilled as future fund-raising goals are reached over the next five to seven years.

**Notes Receivable**

Notes receivable represents amounts due from students for federal and college approved loans. The allowance for uncollectible amounts was \$1,648 and \$1,440 at June 30, 2006 and 2005, respectively.

**4. Financial Instruments**

**Investments**

The College's investments are recorded in the following manner:

<b>Investments</b>	<b>Values as Recorded</b>
Short-term investments consisting principally of money market funds and short-term notes	At quoted market value which approximates cost
Equity securities and debt securities	At quoted market value or determined by investment managers
Private equity partnerships	Estimated fair value determined by the general partner, if available, otherwise at cost
Real estate, mortgages and other	Estimated fair value determined by the real estate partnership, if available, otherwise at cost
Absolute return funds	Estimated fair value determined by investment managers

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

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*(in thousands)*

The major portion of investments are pooled for investment purposes in Associated Trust Funds (ATF). Shares in the pool are assigned on the basis of market value at the time the funds to be invested are received. Income is distributed thereafter on a per-share basis. The following table summarizes the status and results of pooled investments at June 30, 2006 and 2005:

<b>Per Share</b>	<b>2006</b>	<b>2005</b>
Number of principal shares (not in thousands)	553,869.870	544,856.907
Market value (not in thousands) (excluding Delineation)	\$ 1,361.521	\$ 1,274.40
Distribution per share (not in thousands)	\$ 76.71	\$ 81.06

For the year ended June 30, 2006, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of \$38,794. During 2005, the difference between distribution per share and dividends and interest earned per share was funded by realized gains of \$30,982 as well as \$1,485 of unrestricted net assets. During 2006 and 2005, distributions totaling \$377 and \$578, respectively, were added back to the principal in accordance with donor restrictions.

The Board of Trustees approves a distribution of investment return based on the average per share market value of the ATF over the twelve calendar quarters preceding the beginning of the next fiscal year.

The components of total investment return from all sources consist of the following at June 30, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Interest, dividends, and other income	\$ 7,573	\$ 13,381
Realized gains, net	89,220	30,982
Change in unrealized gains, net	(2,064)	31,785
	<u>\$ 94,729</u>	<u>\$ 76,148</u>

Direct, external investment management fees were \$3,833 and \$2,706 in 2006 and 2005, respectively, and are netted against interest, dividends and other income in the statement of activities. Purchase and sale transactions are recorded on a trade date basis.

**Middlebury College**  
**Notes to Consolidated Financial Statements**  
**June 30, 2006 and 2005**

(in thousands)

Investments held by the College at June 30, 2006 and 2005, including pooled investments held in the Associated Trust Funds and other separately invested funds, were comprised of the following:

June 30, 2006	As Recorded			Cost
	Pooled	Separately Invested	Total at Fair Value	
Money market funds	\$ 3,479	\$ 1,738	\$ 5,217	\$ 5,216
Due from broker	2,245	-	2,245	2,245
Equity securities	290,496	51,692	342,188	219,573
Absolute return	262,253	10,333	272,586	235,431
Debt securities	56,622	13,697	70,319	61,846
Real estate and mortgages	16,496	13,622	30,118	33,970
Private equity partnerships, fair value basis	115,580	-	115,580	116,061
Other investments	6,934	1,375	8,309	7,031
	<u>\$ 754,105</u>	<u>\$ 92,457</u>	<u>\$ 846,562</u>	<u>\$ 681,373</u>

June 30, 2005	As Recorded			Cost
	Pooled	Separately Invested	Total at Fair Value	
Money market funds	\$ 2,455	\$ 862	\$ 3,317	\$ 3,137
Due from broker	33,621	-	33,621	30,815
Equity securities	322,485	25,278	347,763	226,726
Absolute return	155,083	10,508	165,591	130,590
Debt securities	59,225	12,653	71,878	58,066
Real estate and mortgages	8,584	14,485	23,069	26,249
Private equity partnerships, fair value basis	108,133	-	108,133	111,213
Other investments	4,781	1,237	6,018	5,341
	<u>\$ 694,367</u>	<u>\$ 65,023</u>	<u>\$ 759,390</u>	<u>\$ 592,137</u>

Included in equity securities, absolute return, private equities and real estate are alternative investments with a market value of \$713,807 and \$616,502 at June 30, 2006 and 2005, respectively.

The College has developed a diversified endowment investment portfolio with a strong orientation to equity investments and to strategies designed to take advantage of market inefficiencies. The College's investment objectives are guided by the College's asset allocation policy and are achieved in partnership with external investment managers operating through a variety of vehicles, including separate accounts, limited partnerships, and commingled funds. Investments in real estate and mortgages include the College's investment in real estate partnerships.

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*(in thousands)*

The College's absolute return managers seek to generate high returns regardless of the direction of the overall stock market and may use derivatives to exploit inefficiencies in securities markets. Accordingly, derivatives in the College's investment portfolio may include currency forward contracts, interest rate and currency swaps, call and put options, debt and equity futures contracts, equity swaps and other vehicles that may be appropriate in certain circumstances. The College's risk is limited to the amount it has invested in the absolute return funds plus certain distributions received as well as legally obligated calls.

As noted above, investments in certain private equity partnerships are recorded based upon estimated fair value, if available, as determined by the general partner. The College enters into private equity partnerships with the intention of remaining invested in them until their liquidation. Because of the inherent uncertainty of valuations, the estimated values as determined by general partners and investment managers may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

As of June 30, 2006 and 2005, the College had committed \$146,330 and \$74,107, respectively, of unrestricted net assets to be invested for long-term growth. These commitments are to fund private equity partnerships. Long-term investments are liquidated as the funds are called.

The College has \$129,052 and \$138,352 of the investment portfolio at June 30, 2006 and 2005, respectively, invested in international securities. These investments are subject to the additional risk of currency fluctuations.

Also included in investments are \$42,521 and \$40,762 at June 30, 2006 and 2005, respectively, for split interest agreements.

As of June 30, 2006 and 2005, the market value attributable to certain endowment funds was less than the permanently restricted original gift in the amount of \$589 and \$724, respectively. In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, this amount is recorded as a reduction in unrestricted net assets.

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**Long-Term Debt**

Long-term debt is comprised of the following at June 30, 2006 and 2005:

	2006	2005
Adjustable rate Vermont Educational and Health Buildings Financing Agency (VEHBFA) Series 1988A bonds, \$40,000 (2006: 1.96% - 3.72%) (2005: 1.10% - 2.91%) (uncollateralized) with annual principal payments increasing from \$580 in 2006 to \$3,140 through 2028	\$ 34,570	\$ 35,150
5% - 6%, \$65,000 VEHBFA Series 1996 bonds (uncollateralized) with annual principal payments increasing from \$1,415 in 2006 to \$4,330 through 2027, issued at a discount	56,520	57,935
5%, \$60,000 VEHBFA Series 1999 bonds (uncollateralized) due on November 1, 2038 issued at a discount	60,000	60,000
4.00% - 5.25%, \$16,455 VEHBFA Series 2002A serial bonds (uncollateralized) with annual principal payments increasing from \$740 in 2006 to \$1,440 in 2020	14,915	15,655
5.00% - 5.375%, \$54,805 VEHBFA Series 2002A term bonds (uncollateralized) \$4,805 and \$50,000 due on November 1, 2022 and November 1, 2032, respectively	54,805	54,805
Adjustable rate VEHBFA Series 2002B bonds, \$20,000 (2006: 1.96% - 3.16%) (2005: 1.10% - 1.96%) (uncollateralized) due on November 1, 2032	20,000	20,000
Other	1,004	1,096
	<u>241,814</u>	<u>244,641</u>
Less discount	4,380	4,555
	<u>\$ 237,434</u>	<u>\$ 240,086</u>

The estimated fair value of the College's total existing debt is approximately \$242,000 at June 30, 2006. The fair value is estimated based on quoted market prices for the same or similar debt instruments.

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According to the terms of the VEHBFA bonds, the College is required to make sinking fund deposits to the bond trustee in amounts sufficient to satisfy future debt service obligations. Annual principal requirements over the next five years under the long-term debt obligations, are as follows at June 30, 2006.

2007	\$	2,974
2008		3,169
2009		3,536
2010		3,537
2011		3,703
Thereafter		224,895
		<u>241,814</u>
Less discount		4,380
	\$	<u>237,434</u>

If the 2003 swaption is exercised by the counterparty in November 2006, the amounts payable in 2007 would increase from \$2,974 to \$57,980 caused by the current refunding of the Series 1996 Bonds (Note 7).

**Credit Line**

As of June 30, 2006, the College had a \$25,000 line of credit. At June 30, 2006, there was no outstanding balance. The proceeds of the borrowings are to be used for short-term working capital needs, pre-funding capital projects prior to a bond issuance, or providing temporary liquidity for investment transactions.

As of June 30, 2005, the College had a \$10,000 line of credit, which expired on or about May 18, 2006. At June 30, 2006 and 2005, there was no outstanding balance. The proceeds of the borrowings were to be used for temporary purposes to enhance liquidity for securities transactions.

**5. Land, Buildings and Equipment**

Land, buildings and equipment of the College at June 30, 2006 and 2005 consisted of the following:

	<b>2006</b>	<b>2005</b>
Land and land improvements	\$ 38,281	\$ 38,127
Buildings	377,484	369,003
Equipment	35,271	33,017
Art/antiques	10,124	9,447
Construction in progress	8,078	4,209
	<u>469,238</u>	<u>453,803</u>
Less accumulated depreciation	155,910	138,388
	<u>\$ 313,328</u>	<u>\$ 315,415</u>



# **Middlebury College**

## **Notes to Consolidated Financial Statements**

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Interest costs totaling \$252 and \$743 were capitalized as of June 30, 2006 and 2005, respectively.

Total depreciation expense as of June 30, 2006 and 2005 was \$17,857 and \$15,950, respectively.

Total disposals, net of accumulated depreciation of \$357 and \$101 as of June 30, 2006 and 2005, were \$270 and \$176, respectively. These costs have been recorded in "nonoperating activities - other" in the College's statement of activities.

As of June 30, 2006, the College has contractually committed approximately \$2,086 for future construction projects and has a nonbinding agreement for \$2,920.

#### **6. Retirement Plan**

Retirement benefits for substantially all full-time employees are individually funded and vested under a defined contribution program with the Teachers Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF). Under this plan, the College makes contributions into employee accounts based upon options exercised by the employee. This plan is administered by TIAA/CREF. The College's retirement expense for the years ended June 30, 2006 and 2005 was approximately \$7,475 and \$6,922, respectively.

#### **7. Derivative Financial Investments**

##### **Foreign Currency Contracts**

The College has entered into forward currency contracts to hedge the currency exposure associated with the College's foreign language programs. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The market value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked to market and the change in value is recorded by the College as an unrealized gain or loss in other nonoperating activities. These contracts may involve market risk in excess of the unrealized gain or loss reflected in the statement of activities. In addition, the College could be exposed to risk if the counterparties are unable to meet the terms of the contracts or if there are movements in foreign currency values that are unfavorable to the College. The notional amount of the currencies the College has committed to buy is \$951 and \$954, respectively, at June 30, 2006 and 2005. The fair value of these contracts is \$75 and (\$17), respectively, at June 30, 2006 and 2005.

##### **December 2003 Swap Option**

In December 2003, the College sold an option to an interest rate swap counterparty selected by the Investment Committee to initiate an interest rate swap with the College on November 1, 2006, the first call date for the 1996 bonds. This transaction was not entered into for speculative purposes, but rather for the purpose of facilitating a current refunding of the College's 1996 bonds. If the option is exercised by the counterparty, the College will at that time refund its 1996 bonds, issue new variable rate refunding bonds, and simultaneously enter into the floating-to-fixed interest rate swap. As of June 30, 2006, the value of the 1996 bonds is \$56,520 and has been classified as long-term debt on the statement of financial position.

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Under the terms of swaption agreement, the College will pay a fixed rate of 4.76% and receive a variable rate, ranging from 65% to 100% of the 1-month London Interbank Offer Rate (LIBOR), on a notional amount of \$56,575.

The College received an upfront premium payment of \$4,265 for selling the option to initiate a swap ("swaption"), which has been recorded in deferred revenue for the years ending June 30, 2006 and 2005. This premium is retained by the College regardless of whether the counterparty exercises the option. The College has the right to terminate the agreement at any time at the prevailing market rate. The premium will be recognized on November 1, 2006.

The estimated fair value of this transaction was \$5,088 as of June 30, 2006, which represents the amount the College would have to pay to terminate the agreement at the end of the fiscal year. The difference between the fair value of the transaction and the amount recorded in deferred revenue of \$823 has been recorded as an accrued liability, and an increase to unrestricted nonoperating other investment income for the change in the accrued liability from June 30, 2005 to June 30, 2006 of \$3,607.

**8. Temporarily Restricted Net Assets**

	2006	2005
Gifts and other unexpended revenues available for scholarships and prizes	\$ 33,204	\$ 21,908
Gifts and other unexpended revenues for professorships	2,704	5,256
Gifts and other unexpended revenues for special purposes	24,828	26,982
Gifts and other unexpended revenues for capital projects	6,667	4,733
Contributions receivable	16,829	26,566
Annuity and life income funds	8,345	7,039
	<u>\$ 92,577</u>	<u>\$ 92,484</u>

**9. Permanently Restricted Net Assets**

Permanently restricted net assets consisted of the following at June 30, 2006 and 2005:

	2006	2005
Donor-restricted loan funds	\$ 3,002	\$ 2,859
Annuity and life income funds	6,707	6,302
Contributions receivable	6,748	7,826
Donor-restricted endowment funds	182,650	169,212
	<u>\$ 199,107</u>	<u>\$ 186,199</u>

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**10. Commitments and Contingencies**

The College has legal cases arising in the normal course of its operations. The College believes that the outcome of these cases will have no material adverse effect on the financial position of the College.

**11. Operating Expenses**

Operating expenses for the years ended June 30, 2006 and 2005 were classified as follows:

	2006	2005
Salaries and wages	\$ 70,476	\$ 66,330
Employee benefits	22,605	20,630
Food	3,963	3,881
Utilities	6,358	5,288
Repairs and maintenance	2,032	1,747
Contracted services	6,298	5,995
Supplies	3,765	3,268
Library books and periodicals	1,781	1,755
Interest	11,135	10,105
Depreciation	18,302	15,967
Amortization	56	55
Travel	3,847	3,788
Taxes and insurance	1,795	1,722
Sponsored activities	5,136	4,006
Other	9,502	11,335
	<u>\$ 167,051</u>	<u>\$ 155,872</u>

**12. Asset Retirement Obligations**

Financial Accounting Standards (FASB) Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)*, was issued in March 2005. SFAS 143, *Accounting for Asset Retirement Obligations*, requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized. This interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. Upon adoption of FIN 47 on June 30, 2006, the College recognized asset retirement obligations related to potential contamination, primarily related to asbestos, on the College campus and its properties and recorded a noncash transition impact of \$2,339 which is reported as a cumulative effect of a change in accounting principle in the statement of activities, and a liability for conditional asset retirement obligations of \$2,444.

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If FIN No. 47 was applied retroactively, it would not have had a material impact on operating expenses for the years ended June 30, 2006 and 2005.

**13. Monterey Institute of International Studies**

On June 23, 2005, the trustees of Middlebury College and the Monterey Institute of International Studies ("MIIS") approved a letter of intent to make Monterey an affiliate of Middlebury. The affiliation will combine the strengths of two institutions renowned for their expertise in international education, language teaching, and cultural studies. Both institutions executed the affiliation agreement in December 2005.

This affiliation allows both institutions to be at the forefront of shaping international education, based on language proficiency and cultural understanding. It also provides additional networking opportunities for students and alumni and it would likely lead to innovative research and teaching opportunities for faculty from both Middlebury and Monterey.

Middlebury contributed \$7,400 in 2006 in the form of a \$7,000 contribution and \$400 of subordinated debt to MIIS to improve facilities and technology resources and to promote admissions and fund-raising activities. The \$7,000 contribution to MIIS is shown as a charge in "nonoperating activities - other", under both unrestricted and temporary restricted in the College's statement of activities.

The Monterey Institute of International Studies, located in California, includes the Graduate School of International Policy Studies, the Graduate School of Translation and Interpretation, the Fisher Graduate School of international Business and the Graduate School of Language and Educational Linguistics and enrolls some 700 students. The institute also includes the internationally renowned Center for Nonproliferation Studies and Center for East Asian Studies.

## SUMMARY OF DOCUMENTS

Brief descriptions of the Bond Indenture and the Loan Agreement are included herein. Such descriptions do not purport to be comprehensive or definitive; all references to the Bond Indenture and the Loan Agreement are qualified in their entirety by reference to each such document.

### The Bond Indenture

The Bond Indenture contains terms and conditions relating to the issuance and sale of Bonds under it, including various covenants and security provisions, certain of which are summarized below. This description does not purport to be comprehensive or definitive and is subject to all of the provisions of the Bond Indenture to which reference is hereby made. This summary uses various terms defined in the Bond Indenture and such terms as used herein shall have the same meanings as so defined.

No Additional Bonds. No other bonds or other indebtedness of the Agency may be issued under and secured by the Bond Indenture at any time or for any purpose after the delivery of the Bonds, except as provided in the Bond Indenture concerning the replacement of mutilated, destroyed, lost or stolen Bonds. (Section 217.)

Rights of the Bond Insurer. As long as the Bond Insurance Policy shall be in full force and effect, the Bond Trustee and the Agency agree to comply with the following provisions:

Any provision of the Bond Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of Bond Insurer hereunder without the prior written consent of Bond Insurer. The Bond Insurer reserves the right to charge the College a reasonable fee to reimburse the Bond Insurer for its costs for any consent or amendment to this Bond Indenture while the Bond Insurance Policy is outstanding.

Unless otherwise provided in this paragraph, Bond Insurer's consent shall be required in lieu of Series B Bondowner consent, when required, for the following purposes: (i) execution and delivery of any supplemental Bond Indenture or any amendment, supplement or change to or modification of the Loan Agreement (ii) removal of the Bond Trustee or Paying Agent and selection and appointment of any successor trustee or paying agent; and (iii) initiation or approval of any action not described in (i) or (ii) above which would otherwise require Series B Bondowner consent.

Anything in the Bond Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Series B Bondowners or the Bond Trustee for the benefit of the Series B Bondowners under the Bond Indenture, including, without limitation: (i) the right to accelerate the principal of the Series B Bonds as described in the Bond Indenture, and (ii) the right to annul any declaration of acceleration, and Bond Insurer shall also be entitled to approve all waivers of Events of Default.

Upon the occurrence of an Event of Default, the Bond Trustee may, with the consent of Bond Insurer, and shall, at the direction of Bond Insurer or 25% of the Series B Bondowners with the consent of Bond Insurer, by written notice to the College and Bond Insurer, declare the principal of the Series B Bonds to be immediately due and payable, whereupon that portion of the principal of the Series B Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in this Bond Indenture or in the Series B Bonds to the contrary notwithstanding.

In the event that the maturity of the Series B Bonds is accelerated, Bond Insurer may elect, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the College) with respect to the Series B Bonds, and the Bond Trustee shall accept such amounts. Upon payment of all of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy shall be fully discharged.

Notwithstanding any other provision of the Bond Indenture, in determining whether the rights of the Series B Bondowners will be adversely affected by any action taken pursuant to the terms and provisions of this Bond Indenture, the Bond Trustee shall consider the effect on the Series B Bondowners as if there were no Bond Insurance Policy. (Section 222).

Construction Fund. Upon the execution and authentication of the Bonds, the Bond Trustee shall make a deposit to the Construction Fund, representing the balance of the proceeds of the Series A Bonds, after having provided for accrued interest incurred in connection with the issuance of the Bonds. All money received by the Bond Trustee from any source for the construction of the Project shall be deposited immediately upon its receipt to the credit of the Construction Fund. The money in the Construction Fund shall be held by the Bond Trustee in trust and, subject to the provisions of Section 404 of the Bond Indenture, shall be applied to the payment of the Cost of the Project and, pending such application, shall be subject to a lien and charge in favor of the Owners and for the further security of such Owners until paid out or transferred as herein provided.

Before any payment of the Cost of the Project shall be made, there shall be filed with the Bond Trustee:

(A) a requisition, signed by a College Representative and, if an Agency Representative so determines by prior written notice to the Bond Trustee, approved by an Agency Representative, stating or identifying:

- (i) the item number of each such payment,
- (ii) the name of the person, firm or corporation to whom each such payment is due,
- (iii) the respective amounts to be paid excluding any applicable sales tax,
- (iv) the purpose by general classification for which each obligation to be paid was incurred,

(v) that obligations in the stated amounts have been incurred by the College and are presently due and payable and that each item thereof is a proper charge against the Construction Fund and has not been paid,

(vi) that no notice of any lien, right to lien or attachment upon, or claim affecting the right of any such persons, firms or corporations to receive payment of the respective amounts stated in such requisition, has been filed or attached or, if any of the foregoing have been filed or attached, that the same will be satisfied or discharged or that provisions have been made (which shall be specified) to adequately protect the Bond Trustee and the Owners from incurring any loss as a result of the same, and

(vii) that such requisition contains no item representing payment on account of any retainage to which the College is entitled at the date of such requisition.

(B) as to obligations payable to contractors on account of construction costs (as expressly so identified on such requisition), a certificate signed by the architect and attached to such requisition certifying his approval thereof. (Sections 401 and 404.)

#### The Bond Fund.

1. Deposit to Accounts. The Bond Fund contains an Interest Account, a Principal Account, a Sinking Fund Account and a Redemption Account. The moneys in the Bond Fund shall be held by the Bond Trustee in trust and shall be subject to a lien and charge in favor of the Owners of the Bonds issued and outstanding under the Bond Indenture and for the further security of such Owners until paid out or transferred as herein provided. Upon receipt, the Bond Trustee shall immediately deposit all amounts received as Note Payments for application to the payment of the principal of and interest on such Bonds, as required by Section 4.01 of the Loan Agreement, in the following order:

(A) into the Interest Account in the Bond Fund, on the Business Day next preceding each Interest Payment Date, that amount which shall be equal to the interest payable on the Bonds on such Interest Payment Date;

(B) on the Business Day next preceding each November 1, into the Principal Account in the Bond Fund, the amount which shall be equal to the principal payable on the Bonds on such November 1; and

(C) on the Business Day next preceding November 1, 2007, and on the Business Day next preceding each November 1 thereafter, into the Sinking Fund Account in the Bond Fund, the amount required to retire the Term Bonds to be called by mandatory redemption or to be paid at maturity on the next succeeding November 1 in accordance with the Amortization Requirement therefor.

2. Application of Money in the Interest Account. On each Interest Payment Date, date for the payment of Defaulted Interest or date upon which Bonds are to be redeemed, the Bond Trustee shall withdraw from the Interest Account and remit by mail to each Owner of

Bonds, or, if requested by any Owner of at least \$100,000 aggregate principal amount of Bonds, by wire transfer on the next day immediately following the applicable Interest Payment Date to any bank designated by such Owner, the amount required for paying interest on such Bonds when due and payable. (Section 503.)

3. Application of Money in the Principal Account. On each November 1, the Bond Trustee shall withdraw from the Principal Account and remit to each Owner of Bonds, upon surrender of its Bonds at the Principal Office of the Trustee, by check or draft, or, if requested by any Owner of at least \$100,000 aggregate principal amount of Bonds, by wire transfer on the next day immediately following the applicable maturity date to any bank designated by such Owner, the principal amount of the Bonds that is due and payable on such November 1. (Section 504.)

4. Application of Money in Sinking Fund Account. Money held for the credit of the Sinking Fund Account shall be applied during each Bond Year to the retirement of Term Bonds as follows:

(A) The Bond Trustee shall endeavor to purchase, at the written direction of the College, and cancel such Term Bonds or portions thereof then subject to redemption by operation of the Sinking Fund Account, such price not to exceed the optional redemption prices provided in Article III of the Bond Indenture plus accrued interest to the date of purchase which would be payable on the next Amortization Date to the Owners of such Bonds if such Bonds or portions were to be called for redemption on such date from money in the Sinking Fund Account, plus accrued interest to the date of purchase. The Bond Trustee shall pay the interest accrued on such Term Bonds or portions thereof to the date of settlement therefor from the Interest Account and the purchase price from the Sinking Fund Account, but no such purchase shall be made by the Bond Trustee from money in the Sinking Fund Account within the period of forty-five (45) days immediately preceding the next Amortization Date on which the Term Bonds are subject to redemption. The aggregate purchase prices of such Term Bonds so purchased shall not exceed the on amount deposit in the Sinking Fund Account; provided, however, that if in any Bond Year the amount held for the credit of the Sinking Fund Account plus the principal amount of all Term Bonds purchased during such Bond Year pursuant to the provisions of this paragraph (A) exceed the aggregate Amortization Requirements for all Term Bonds then Outstanding for such Bond Year, the Bond Trustee shall endeavor to purchase any Term Bonds with such excess money;

(B) The Bond Trustee shall call for redemption on each Amortization Date, such Term Bonds or portions thereof then subject to redemption in a principal amount equal to the aggregate Amortization Requirements for the Term Bonds for such Bond Year less the principal amount of any such Bonds retired by purchase pursuant to paragraph (A) above, including any Bonds purchased in excess of the aggregate Amortization Requirements for such Bond Year (unless the College shall file a certificate with the Bond Trustee, as hereinafter provided, directing a different application of such excess). If the amount available in the Sinking Fund Account on such Amortization Date is not equal to the Amortization Requirement of Term Bonds for such Bond Year less the principal amount of any such Term Bonds so retired by purchase, the Bond Trustee shall



apply the amount available in the Sinking Fund Account pro rata to the redemption of all Term Bonds then subject to redemption. If such Amortization Date is the stated maturity date of any such Term Bonds, the Bond Trustee shall not call such Bonds for redemption but, prior to or on such maturity date, shall set aside in the Sinking Fund Account the amount required for paying the principal of such Bonds when due and payable. Not later than 10:00 A.M. on such redemption date, the Bond Trustee shall withdraw from the Interest Account and the Sinking Fund Account the respective amounts required for paying the interest on and the redemption price of the Term Bonds or portions thereof so called for redemption.

If at any date there shall be money in the Sinking Fund Account and no Term Bonds shall be then Outstanding, the money therein shall be withdrawn by the Bond Trustee and paid to the College.

If, in any Bond Year, by the application of money in the Sinking Fund Account the Bond Trustee should purchase and cancel Term Bonds in excess of the aggregate Amortization Requirements for such Bond Year, the Bond Trustee shall file with the Agency and the College not later than the 20<sup>th</sup> day prior to the next Amortization Date on which such Term Bonds are to be redeemed, a statement identifying the Term Bonds purchased or delivered during such Bond Year and the amount of such excess. The College shall thereafter cause a certificate signed by a College Representative to be filed with the Bond Trustee not later than the 10<sup>th</sup> day prior to such Amortization Date, setting forth with respect to the amount of such excess the years in which the Amortization Requirements with respect to such Term Bonds are to be reduced and the amount by which the Amortization Requirements so determined are to be reduced.

Upon the retirement of any Term Bonds by purchase or redemption pursuant to the provisions of this Section, the Bond Trustee shall file with the College a statement identifying such Bonds and setting forth the date of purchase or redemption, the amount of the purchase price or the redemption price of such Bonds and the amount paid as interest thereon. The expenses incurred in connection with the purchase or redemption of any such Term Bonds shall be paid by the College. (Section 505.)

5. Application of Money in Redemption Account. Money held for the credit of the Redemption Account, whether Note prepayments or money deposited from any other source, shall be applied to the purchase or redemption of Bonds as follows:

(A) The Bond Trustee shall, at the written direction of the College, endeavor to purchase and cancel Bonds or portions thereof, whether or not such Bonds or portions thereof shall then be subject to redemption, at such price not to exceed the redemption price that would be payable on the next redemption date to the Owner of such Bonds under the provisions of Article III if such Bonds or portions thereof should be called for redemption on such date from the money in the Redemption Account, plus accrued interest to the date of purchase. The Bond Trustee shall pay the interest accrued on such Bonds or portions thereof to the date of settlement therefor from the Interest Account and the purchase price of Bonds from the Redemption Account, but no such purchase shall be made by the Bond Trustee from money in the Redemption Account within the period of

forty-five (45) days immediately preceding any Interest Payment Date on which such Bonds are subject to redemption;

(B) Subject to the provisions of paragraph (C) below, the Bond Trustee shall call for redemption on each Interest Payment Date such amount of Bonds or portions thereof as, with the redemption premium, if any, will exhaust the money then held for the credit of the Redemption Account as nearly as may be practicable. Such redemption shall be made pursuant to the provisions of Article III. The Bond Trustee shall withdraw from the Interest Account the amount required for paying the interest and from the Redemption Account the redemption price of Bonds or portions thereof so called for redemption; and

(C) Money in the Redemption Account shall be applied by the Bond Trustee in each Bond Year to the purchase, or the redemption, of Bonds then Outstanding in accordance with the latest certificate signed by a College Representative filed by the College with the Bond Trustee designating the maturities of such Bonds to be purchased or redeemed. In the event no such certificate signed by a College Representative is filed, the Bond Trustee shall apply such money to the purchase or redemption of Bonds as it shall determine. The Bond Trustee shall purchase or redeem Bonds by lot within maturities in such fashion as the Bond Trustee may, in its discretion, determine. For purposes of this paragraph (C), the Bonds shall be considered to mature on each Amortization Date in amounts equal to the aggregate Amortization Requirement therefor; and

(D) Upon the retirement of any Bonds by purchase or redemption pursuant to the provisions of this Section, the Bond Trustee shall file with the College a statement identifying such Bonds and setting forth the date of purchase or redemption, the amount of the purchase price or the redemption price of such Bonds and the amount paid as interest thereon. The expenses in connection with the purchase or redemption of any such Bonds shall be paid by the College. (Section 506.)

Moneys Withdrawn from the Bond Fund. All moneys which the Bond Trustee shall have withdrawn from the Bond Fund or shall have received from any other source and set aside for the purpose of paying any of the Bonds hereby secured, either at the maturity thereof or upon call for redemption, shall be held in trust for the respective Owners of such Bonds. (Section 507.)

Non-Presentment of Bonds. Any moneys deposited with the Bond Trustee or then held by the Bond Trustee in trust for the payment of the principal of and redemption premium, if any, or interest on any Bond and remaining unclaimed for five years after such principal and redemption premium, if any, or interest has become due and payable shall be paid to the College free of any trust or lien. Thereafter, the Owners of such Bonds shall look only to the College for payment and then only to the extent of the amount so received without any interest thereon, and the Agency and the Bond Trustee shall have no responsibility with respect to such moneys. (Section 508.)

Security for Deposits; Investment of Money and Valuation of Investments. Any and all money deposited with the Bond Trustee under the provisions of the Bond Indenture shall be trust

funds under the terms thereof and shall not be subject to any lien or attachment by any creditor of the Agency or the College. Such money shall be held in trust and applied in accordance with the provisions of the Bond Indenture.

All money deposited with the Bond Trustee in excess of the amount guaranteed by the Federal Deposit Insurance Corporation or other federal agency shall be continuously secured, for the benefit of the Agency and the Owners of Bonds, either (a) by lodging with a bank or trust company chosen by the Bond Trustee or custodian or, if then permitted by law, by setting aside under control of the trust department of the bank holding such deposit, as collateral security, Government Obligations or other marketable securities eligible as security for the deposit of trust funds under regulations of the Comptroller of the Currency of the United States or applicable State law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit or as such applicable law or regulation may require or allow, or (b) if the furnishing of security as provided in clause (a) above 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; provided, however, that it shall not be necessary for the Bond Trustee to give security for the deposit of any money with it for the payment of the principal of or the redemption premium or the interest on any Bonds, or for the Bond Trustee to give security for any money that shall be represented by obligations purchased under the provisions of Article VI as an investment of such money.

All money deposited with the Bond Trustee shall be credited to the particular fund or account to which such money belongs.

Money held for the credit of all funds and accounts shall be continuously invested and reinvested by the Bond Trustee at the direction of the College in Investment Obligations to the extent practicable. Any such Investment Obligations shall mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended.

No Investment Obligations in any fund or account may mature beyond the latest maturity date of any Bonds Outstanding at the time such Investment Obligations are deposited. For the purposes of this Section, the maturity date of repurchase agreements for Government Obligations or other obligations is the maturity date of such repurchase agreements and not the maturity date of the underlying Government Obligation or other obligation.

The College may at any time give to the Bond Trustee written directions respecting the investment of any money required to be invested hereunder, subject, however, to the provisions of Article VI of the Bond Indenture, and the Bond Trustee shall then invest such money under this Section as so directed by the College. If the Bond Trustee receives no instructions from the College as to the investment of money, then the Bond Trustee shall invest money required to be invested under the Bond Indenture in Government Obligations.

Any interest earned or other income derived from the investment or deposit of moneys held for the credit of any Funds or Accounts shall be retained in such Funds and Accounts.

Investment Obligations acquired with money and credited to any fund or account established under the Bond Indenture shall be held by or under the control of the Bond Trustee and while so held shall be deemed at all times to be part of such fund or account in which such money was originally held. The Bond Trustee shall sell at the best price reasonably obtainable or reduce to cash a sufficient amount of such Investment Obligations whenever it shall be necessary so to do in order to provide moneys to make any payment or transfer of moneys from any such fund or account. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investment.

For the purpose of determining the amount on deposit to the credit of any such fund or account, obligations in which money in such fund or account shall have been invested shall be valued at the market value or the amortized cost thereof, whichever is lower.

The Bond Trustee shall value the Investment Obligations in the funds and accounts established under this Indenture on the last business day prior to each Principal Payment Date. In addition, the Investment Obligations shall be valued by the Bond Trustee at any time requested by the College Representative on reasonable notice to the Bond Trustee (which period of notice may be waived or reduced by the Bond Trustee), provided, however, that the Bond Trustee shall not be required to value the Investment Obligations more than once in any calendar month.

Notwithstanding the previous two paragraphs, the Bond Trustee shall be required to perform valuations of Investment Obligations only on the basis of and only to the extent of market value information available to it from readily available sources (and only to the extent of such information is so available), and in each case only to the extent that such information is then generally made available by it to its corporate trust customers (Sections 601, 602 and 603.)

Defaults. Each of the following events is hereby declared an “Event of Default” under the Bond Indenture; that is to say, if

(A) Payment of any installment of interest on any of the Bonds shall not be made when the same shall become due; or

(B) Payment of the principal of or the purchase price, if any, or the redemption premium, if any, on any of the Bonds shall not be made when the same shall become due, whether at the maturity date or the redemption date prior to maturity, or upon maturity thereof by declaration; or

(C) An “Event of Default” shall exist under the Loan Agreement; or

(D) The Agency shall fail duly to perform, observe or comply with any covenant, condition or agreement contained in the Bonds or in the Bond Indenture on the part of the Agency to be performed (other than a failure described in paragraphs (A) through (C) above) and such failure continues for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Agency and to the College by the Bond Trustee or by the Owners of at least 25% in aggregate principal amount of the Bonds then Outstanding, provided, however, that if such performance, observation or compliance requires work to be done, action to

be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30 day period, no Event of Default shall be deemed to have occurred or to exist if and so long as the Agency shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion. (Section 802.)

Remedies on Default. Whenever any Event of Default referred to in Section 802 shall have happened and be continuing, the Bond Trustee may, and upon the written direction of the Owners of not less than 25% of the aggregate principal amounts of Bonds then Outstanding shall, take the following remedial steps (subject to Section 902 of the Bond Indenture):

(A) In the case of an Event of Default described in paragraph (A) or (B) under Defaults above, take whatever action at law or in equity is necessary or desirable to collect the Note Payments then due;

(B) In the case of an Event of Default described in paragraph (C) or (D) under Defaults above, take whatever action the Agency would be entitled to take pursuant to Section 7.02 of the Loan Agreement in order to remedy the Event of Default in question;

(C) In the case of an Event of Default described in paragraph (A) or (B) under Defaults above, declare the entire unpaid aggregate principal amount of the Bonds Outstanding to be immediately due and payable.

At any time after the principal of the Bonds shall have been so declared to be immediately due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, the Bond Trustee may annul such declaration and its consequences with respect to any Bonds or portions thereof not then due by their terms if (i) the College has paid or caused to be paid or deposited with the Bond Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Bonds Outstanding; (ii) the College has paid or caused to be paid or deposited with the Bond Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Bond Trustee; (iii) all other amounts then payable by the College hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Bond Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. (Section 803.)

Restrictions upon Actions by Individual Bondowner. No Owner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture, for the execution of any trust thereof or to enforce any other right or remedy thereunder, unless an event of default under the Bond Indenture has occurred of which the Bond Trustee has been notified by the Agency or by the Owners of 25% in principal amount of the Bonds, and the Owners of 25% in principal amount of the Bonds shall have made written request to the Bond Trustee and shall have offered the Bond Trustee reasonable opportunity either to proceed to exercise the powers hereinbefore granted and such Bondowners have offered to the

Bond Trustee indemnity as provided in Section 902, and the Bond Trustee shall thereafter fail or refuse to exercise the powers granted in the Bond Indenture. Such notification, request and offer of indemnity are hereby declared in every case at the option of the Bond Trustee to be conditions precedent to any suit, action or proceeding for the enforcement thereof; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien hereof by its, his or their action or to enforce any right or remedy hereunder except in the manner herein provided, that all proceedings shall be in accordance with Section 803 of the Bond Indenture and shall not be otherwise than in accordance with law and the provisions of the Bond Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner and therein provided and for the equal benefit of the Owners of all Bonds.

Notwithstanding any other provisions in the Bond Indenture, the Owner of any Bond shall have the right, which is absolute and unconditional, to receive payment of the principal of, and redemption premium, if any, and interest on such Bond on the respective due dates 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 at the time, place, from the source and in the manner expressed in such Bond, and such right shall not be impaired without the consent of such Bondowner. (Section 808.)

Notice of Default. The Bond Trustee shall mail to all Registered Owners at their addresses as they appear on the registration books written notice of the occurrence of any Event of Default set forth in Section 802 within thirty (30) days after the Bond Trustee shall have notice of the same that any such Event of Default shall have occurred; provided that, except upon the happening of an Event of Default specified in Section 7.01(a) of the Loan Agreement and Section 802(A) and (B) of the Bond Indenture, the Bond Trustee may withhold such notice if in its opinion such withholding is in the interest of the Owners; and provided further that the Bond Trustee shall not be subject to any liability to any Owner by reason of its failure to mail any such notice. (Section 813.)

Right to Enforce Payment of Bonds Unimpaired. Nothing in the Bond Indenture shall affect or impair the right of any Holder to enforce the payment of the principal of and interest on his Bond or the obligation of the Agency to pay the principal of and interest on each Bond of the Holder thereof at the time and place in said Bond expressed. (Section 815.)

#### Supplements and Amendments to Bond Indenture.

1. Supplements and Amendments Not Requiring Bondowner Consent. The Agency and the Bond Trustee may, without the consent or approval of, or notice to, any of the Bondowners, enter into such supplements and amendments to the Bond Indenture as shall not, in the opinion of the Bond Trustee, materially and adversely affect the interests of the Bondowners (which supplements and amendments shall thereafter form a part of the Bond Indenture) for any of the following purposes:

- (A) to cure any ambiguity or formal defect or omission in the Bond Indenture or in any supplement or amendment to the Bond Indenture, or

(B) to grant to or confer upon the Bond Trustee for the benefit of the Bondowners any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondowners or the Bond Trustee, or

(C) to subject to the lien and pledge of the Bond Indenture additional payments, revenues, properties or collateral, or

(D) to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder, or

(E) to evidence the appointment of a separate Bond Trustee or Co-Bond Trustee or the succession of a new Bond Trustee, or

(F) to modify, amend or supplement the Bond Indenture or any supplement or amendment hereto in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939, as amended, or any similar Federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States, or

(G) to provide for the issuance of Bonds under a book-entry system or in bearer form.

(H) to make such changes as may be requested by S&P or Moody's in connection with any assignment of rating to the Series B Bonds after a Mode Change Date. (Section 1101.)

2. Supplements and Amendments Requiring Consent of Owners of 51 Percent in Principal Amount of Bonds. With the consent of the Owners of not less than 51 percent in aggregate principal amount of the Bonds at the time Outstanding, the Agency and the Bond Trustee may, from time to time and at any time, enter into supplements and amendments to the Bond Indenture which the College deems necessary and desirable for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Bond Indenture or of any supplement or amendment to the Bond Indenture or of modifying in any manner the rights of the Owners of the Bonds; provided, however, that nothing herein contained shall permit, or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond, or (b) a reduction in the principal amount of any Bond or the redemption premium, if any, or the rate of interest thereon, or (c) granting a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to their respective claims on the security provided by the granting clause of the Bond Indenture, or (d) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture. Nothing herein contained, however, shall be construed as making necessary the approval by Bondowners of the execution of any supplement or amendment to the Bond Indenture as authorized in Section 1101.

It shall not be necessary for the consent of the owners of Bonds under Section 1102 to approve the particular form of any proposed supplement or amendment, but it shall be sufficient if such consent shall approve the substance thereof.

If at any time the Agency shall request the Bond Trustee to enter into any supplement or amendment to the Bond Indenture for any of the purposes of Section 1102, the Bond Trustee shall, at the expense of the Agency, cause notice of the proposed execution of such supplement or amendment to be mailed, postage prepaid, to all Registered Owners. Such notice shall briefly set forth the nature of the proposed supplement or amendment and shall state that copies thereof are on file at the designated corporate trust office of the Bond Trustee for inspection by all Bondowners. The Bond Trustee shall not, however, be subject to any liability to any Bondowner by reason of its failure to mail the notice required by Section 1102, and any such failure shall not affect the validity of such supplement or amendment when consented to as provided in Section 1102.

Whenever, at any time within three years after the date of the first publication of such notice, the Agency or the College shall deliver to the Bond Trustee an instrument or instruments in writing purporting to be executed by the Owners of not less than 51 percent in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed supplement or amendment described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the Bond Trustee may execute such supplement or amendment in substantially such form, without liability or responsibility to any Owner of any Bond, whether or not such Owner shall have consented thereto.

If the Owners of not less than 51 percent in aggregate principal amount of the Bonds Outstanding at the time of the execution of such supplemental indenture shall have consented to and approved the execution thereof as herein provided, no Owner of any Bond shall have any right to object to the execution of such supplement or amendment, or to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Agency from executing the same or from taking any action pursuant to the provisions thereof. (Section 1102.)

#### Supplements and Amendments to the Loan Agreement.

1. Supplements and Amendments Not Requiring Consent. The Agency and the Bond Trustee may, from time to time and at any time, consent to such amendments and supplements to the Loan Agreement as shall not be inconsistent with the terms and provisions thereof and, in the opinion of the Bond Trustee (as to which it may rely on an Opinion of Counsel), shall not materially and adversely affect the interests of the Bondowners (which supplements and amendments shall thereafter form a part thereof),

- (A) as may be required by the Loan Agreement or the Bond Indenture, or
- (B) to cure any ambiguity or formal defect or omission in the Loan Agreement or in any supplement or amendment thereto, or
- (C) to grant to or confer upon the Bond Trustee, for the benefit of the Bondowners, any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondowners or the Bond Trustee, or



(D) to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising hereunder and which shall not materially and adversely affect the interests of the Bondowners, which, in the judgment of the Bond Trustee, will not prejudice the interests of the Bond Trustee, or

(E) to provide for the issuance of the Bonds in book entry or bearer form; or

(F) to make such changes as may be requested by S&P or Moody's in connection with any assignment of rating to the Series B Bonds after the Fixed Rate Conversion Date therefor. (Section 1201.)

2. Supplements and Amendments Requiring Consent of Owners of 51 Percent in Principal Amount of Bonds. Except for supplements or amendments provided for in Section 1201, the Agency shall not execute and the Bond Trustee shall not consent to any supplement or amendment to the Loan Agreement unless notice of the proposed execution of such supplement or amendment shall have been given and the Owners of not less than 51 percent in aggregate principal amount of the Bonds then Outstanding shall have consented to and approved the execution thereof, all as provided for in Section 1102 hereof in the case of supplements and amendments to the Bond Indenture.

The Bond Trustee shall be entitled to receive, and shall be fully protected in relying upon an opinion of any counsel approved by it as conclusive evidence that any such proposed supplement or amendment does or does not comply with the provisions of Article XII of the Bond Indenture (including without limitation as to whether the proposed supplement or amendment materially and adversely affects Bondholders), that any conditions precedent contained in the Bond Indenture or the Loan Agreement applicable to the execution and delivery thereof have been satisfied, and that it is (or is not) proper for the Bond Trustee, under the provisions of Article XII of the Bond Indenture to join in the execution thereof. (Section 1202.)

Defeasance. When (a) the Bonds secured under the Bond Indenture shall have become due and payable in accordance with their terms or otherwise as provided in the Bond Indenture, including Article XIII, and the whole amount of the principal and the interest and premium, if any, so due and payable upon all Bonds shall be paid or (b) if the Bond Trustee shall hold sufficient money or Defeasance Obligations the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest and redemption premium, if any, on all Bonds then Outstanding to the maturity date or dates of such Bonds or to the date or dates specified for the redemption thereof, or combination of such payment and redemption, and (c) if Bonds are to be called for redemption, irrevocable instructions to call the Bonds for redemption shall have been given by the Agency to the Bond Trustee, and (d) sufficient funds shall also have been provided or provision made for paying all other obligations payable hereunder by the Agency, then and in that case the right, title and interest of the Bond Trustee in the Note, the funds and accounts mentioned in the Bond Indenture shall thereupon cease, determine and become void and, on demand of the Agency and upon being furnished with an opinion, in form and substance satisfactory to the Bond Trustee, of counsel approved by the Bond Trustee, to the effect that all conditions precedent to the release of the Bond Indenture have been satisfied, and the Bond Trustee shall release the Bond Indenture

(subject to any terms of the Bond Indenture that survive in accordance with their terms) and shall execute such documents to evidence such release as may be reasonably required by the Agency and shall turn over to the College, any surplus in any, and all balances remaining in, all funds and accounts, other than money held for the redemption or payment of Bonds. Otherwise, the Bond Indenture shall be, continue and remain in full force and effect; provided, that, in the event Defeasance Obligations shall be deposited with and held by the Bond Trustee as hereinabove provided, (i) in addition to the requirements set forth in Article III of the Bond Indenture, the Bond Trustee, within thirty (30) days after such Defeasance Obligations shall have been deposited with it, shall cause a notice signed by the Bond Trustee to be mailed by first class mail, postage prepaid, to all Bondowners setting forth (a) the date or dates, if any, designated for the redemption of the Bonds, (b) a description of the Defeasance Obligations so held by it, and (c) that the Bond Indenture has been released in accordance with the provisions of the Section, and (ii) the Bond Trustee shall nevertheless retain such rights, powers and privileges under the Bond Indenture as may be necessary and convenient in respect of the Bonds for the payment of the principal, interest and any premium for which such Defeasance Obligations have been deposited, and as may be necessary and convenient for the registration, transfer and exchange of Bonds.

All money and Defeasance Obligations held by the Bond Trustee pursuant to this Section shall be held in trust and applied to the payment, when due, of the obligations payable therewith. (Section 1301.)

#### The Loan Agreement

The Loan Agreement contains terms and conditions relating to the loan by the Agency to the College of the proceeds of the sale of Bonds including various covenants and security provisions, certain of which are summarized below. This description does not purport to be comprehensive or definitive and is subject to all of the provisions of the Loan Agreement to which reference is hereby made. This summary uses various terms defined in the Loan Agreement and such terms as used herein shall have the same meanings as so defined.

Representations by the College. The College represents and warrants as follows:

(A) It is a duly organized and existing private nonprofit college under the laws of the State and is an “eligible institution” within the meaning of such term as used in the Act.

(B) It has the corporate power to enter into the Agreement, the Broker-Dealer Agreement, the Auction Agreement and the Contract of Purchase and to execute and deliver the Notes and perform its obligations and agreements thereunder.

(C) It has duly authorized the execution, delivery and performance of the Agreement, the Notes, the Broker-Dealer Agreement, the Auction Agreement and the Contract of Purchase.

(D) It is an organization described in Section 501(c)(3) of the Code, and as such is exempt from Federal income taxes under Section 501(a) of such Code.

(E) It has obtained or will obtain all approvals and permits required for the Project and its borrowing of the proceeds of the Bonds.

(F) The College will cause the proceeds of the Bonds to be applied to the payment of the Cost of the Project.

(G) The representations, warranties, certifications and other information contained in the Tax Certificate, together with any additional certificates and information supplied by the College that has been relied upon by Bond Counsel with respect to the eligibility of the Project and the exclusion of interest on the Bonds from gross income for federal income tax purposes, are true and correct. (Section 2.02).

Construction of the Project. The College shall acquire, construct and equip, or cause to be acquired, constructed and equipped, the Project with all reasonable dispatch and in accordance with the applicable Project Documents, and shall take all action necessary to enforce the provisions of the applicable Project Documents, but if for any reason such completion shall be delayed or shall not be completed, there shall be no resulting diminution in or postponement of the payments required under the Agreement to be paid by the College. (Section 3.01).

No Warranty of Condition or Suitability. The College acknowledges its full familiarity with the Project and that the Agency has no responsibility for the Plans and Specifications and other Project Documents. The Agency makes no representation or warranty, either express or implied, and offers no assurance that the proceeds of the Bonds will be sufficient to pay in full the Cost of the Project in accordance with the Project Documents or that the Plans and Specifications, other Project Documents, or the Project itself will be suitable for the College's purposes or needs. (Section 3.05).

Issuance of the Bonds to Fund Loan; Loan by the Agency; Security; Repayment. To provide funds to finance all or a portion of the Costs of the Project and to refund the Refunded Bonds, the Agency agrees that it will sell, issue and deliver the Bonds to the purchaser or purchasers thereof. The Bonds shall be issued in accordance with the Bond Indenture.

Upon the terms and conditions of the Agreement, the Agency shall lend to the College the proceeds of the sale of the Bonds. The proceeds of the Loan shall be deposited with the Bond Trustee and applied in accordance with the Bond Indenture.

The College agrees that its obligation to repay the Loans is absolute and unconditional and is payable from moneys of the College lawfully available therefor. As consideration for the issuance of the Bonds of a Series and the making of the Loan to the College by the Agency, the College agrees to deliver each Note to the Agency for assignment to the Bond Trustee under the Bond Indenture.

Each Note will provide for the making of Note Payments on the dates, in the amounts and in the manner provided in the Bond Indenture so that moneys will be available to the Bond Trustee, for the account of the Agency, to pay the principal (by reason of maturity, scheduled amortization, acceleration or redemption), purchase price, if any, premium, if any, and interest on the Bonds of the Series related thereto.

Any amount credited under the Bond Indenture against any payment required to be made by the Agency thereunder shall be credited against the corresponding payment required to be made by the College under the applicable Note or Loan. Notwithstanding anything to the contrary contained herein, the College covenants that it will make Note Payments at such times and in such amounts to assure that payment of the principal (by reason of scheduled amortization, acceleration or redemption), purchase price, if any, premium, if any, and interest on the related Bonds shall be made when due. (Section 4.01).

### Special Covenants

1. Covenant to Maintain Campus. The College will, at its sole cost and expense, maintain, preserve and keep the Campus with the appurtenances and every major part and parcel thereof, in good repair, working order and condition, ordinary wear and tear excepted, and will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals; provided, however, that the College shall not be obligated to maintain, preserve, repair, replace or renew any element or unit of the Campus the maintenance, repair, replacement or renewal of which becomes uneconomic to the College because of damage or destruction or obsolescence, or change in economic or business conditions, or change in government standards and regulation, or the termination by the College of the operation of the facilities to which the element or unit of the Campus is an adjunct. The College covenants that it will not permit, commit or suffer any waste of the whole or any major part of the Campus and shall not use or permit the use of the Campus, or any part thereof, for any unlawful purpose or permit any nuisance to exist thereon. The College further covenants that it will not dispose of any substantial portion of its assets other than in the ordinary course of business without the consent of the Agency, which consent shall not be unreasonably withheld. (Section 4.04).

2. Arbitrage. The Agency and the College shall take no action, and shall not approve any action of or the making of any investment or use of the proceeds of the Bonds by the Bond Trustee, that would cause the Bond to be “arbitrage bonds” within the meaning of Section 148(a) of the Code or that would otherwise cause the interest on the Bonds to be includable in the gross income of any holder thereof for Federal income tax purposes pursuant to the Code and the regulations thereunder as such may be applicable to the Bonds at the time of such action, investment or use. (Section 5.04).

3. Covenant to Maintain Corporate Existence and Tax Status. The College covenants that so long as the Bonds are outstanding it will not dispose of all or substantially all its assets and will not acquire, consolidate with or merge into another corporation; provided, however, that the College may acquire, consolidate with or merge into another corporation, or transfer to another corporation all or substantially all its assets, if the successor or transferee corporation is an “eligible institution” within the meaning of such term as used on the Act and irrevocably and unconditionally assumes in writing all the obligations of the College herein and under the Notes and the Contract of Purchase.

The College covenants and agrees (i) that it will use diligence so that it will not perform any acts nor enter into any agreements or omit to perform any act or fulfill any requirement that shall have the effect of prejudicing the College’s tax exempt status under Section 501(c)(3) of the Code and (ii) that it will maintain, extend and renew its corporate existence under the laws of

the State and all franchises, rights and privileges to it granted and upon it conferred, and will not do, suffer or permit any act or thing to be done whereby its right to transact its functions might or could be terminated or its operations and activities restricted or whereby the payment under the Agreement might or could be hindered, delayed or otherwise impeded. The College further covenants that it will use due diligence so that it will maintain its tax exempt status under Federal income tax laws and regulations thereunder and none of its gross revenues, income or profits, either realized or unrealized, and none of its other assets or property will be distributed to any of its employees, or inure to the benefit of any private person, association or corporation, other than for the lawful corporate purpose of the College; provided, however, that this is not intended to prevent the College's paying the cost of services or property, real or personal, provided to the College by any person, association or corporation. (Section 5.06).

4. Secondary Market Disclosure. The College covenants for the benefit of the persons who from time to time are the owners of the Bonds for federal income tax purposes (the "beneficial owners"):

(A) to file within 180 days after the end of each of its fiscal years, beginning after its 2007 fiscal year, with each nationally recognized municipal securities information repository and to any Vermont state information depository, core financial information for the prior fiscal year, including (i) the College's audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data concerning the College of the type generally found under the captions "Faculty and Staff", "Student Enrollment", "Tuition and Fees", "Financial Aid" and "Gifts, Grants and Bequests" and, so long as the College has not terminated its affiliation with the Monterey Institute of International Studies, the table under the caption "Monterey Institute of International Studies" in Appendix A to this Official Statement; and

(B) to file in a timely manner, with each nationally recognized municipal securities information repository or with the Municipal Securities Rulemaking Board, and with any Vermont state information depository, notice of any failure of the College to comply with clause (A) above and notice of any of the following events with respect to the Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

No beneficial owner may institute any suit, action or proceeding at law or in equity (“Proceeding”) for the enforcement of any covenant in paragraph (a) of this Section (the “Disclosure Covenant”) or for any remedy for breach thereof, unless such owner shall have filed with the College written notice of and request to cure such breach, and the College shall have refused to comply within a reasonable time. All Proceedings shall be for the equal benefit of all beneficial owners of the outstanding Bonds benefited by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the Disclosure Covenant at issue. Notwithstanding the foregoing, no challenge to the adequacy of the information provided in accordance with the filings mentioned in said paragraph (a) may be prosecuted by any beneficial owner except in compliance with the remedial and enforcement provisions of the Loan Agreement.

Any amendment to the Disclosure Covenant may only take effect if:

1. the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the College, or type of business conducted; this Section, as amended, would have complied with the requirements of Rule 15c2-12 (the “Rule”) of the Securities and Exchange Commission (the “SEC”) at the time of issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and the amendment does not materially impair the interests of beneficial owners, as determined by parties unaffiliated with the College or the Agency; or
2. all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of this resolution, ceases to be in effect for any reason, and the College elects that this Section shall be deemed amended accordingly.

In the case of any amendment, the annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described in the preceding paragraph.

Any filing required by the Disclosure Covenant may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.com> unless the Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004; provided, however, that a copy of any such filing shall also be delivered to the Bond Insurer. (Section 5.14.)

Events of Default. The terms "Event of Default" and "Default" under the Loan Agreement shall mean any one or more of the following events:

(A) The College shall fail to make any Note Payment.

(B) An Event of Default shall exist under the Bond Indenture.

(C) The College shall fail duly to perform, observe or comply with any covenant, condition or agreement on its part under the Agreement (other than a failure to make any Note Payment required under the Agreement), and such failure continues for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the College and the Agency by the Bond Trustee, or to the College and the Agency and the Bond Trustee by the Owners of at least 25% in aggregate principal amount of the Bonds then outstanding; provided, however, that if such performance, observation or compliance requires work to be done, action to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as the College shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion.

(D) Under any present or future bankruptcy law, the College shall apply for or consent to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of itself or of any part of its property, or shall admit in writing its inability to pay its debts generally as they come due, or shall make a general assignment for the benefit of creditors, or shall institute proceedings to be adjudged a bankrupt or insolvent, or shall seek reorganization in a proceeding under any present or future bankruptcy law or shall admit the material allegations of a petition filed against the College in any such proceeding, or shall seek relief under the provisions of any other present or future bankruptcy, insolvency or other similar law providing for the reorganization or winding up of corporations, or the College or its directors shall take action looking to the dissolution or liquidation of the College or an arrangement, composition, extension or adjustment with its creditors generally (except in connection with a consolidation or a merger of the College with or into another corporation or sale, transfer or other disposition of all or substantially all the assets of the College not prohibited by the Agreement with respect to the College).

(E) The entry of a decree or order by a court having jurisdiction in the premises adjudging the College a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the College under the Federal Bankruptcy Code or any other applicable law, or under

any present or future bankruptcy law appointing a receiver, liquidator, custodian, assignee, trustee, sequestrator (or other similar official) of the College or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of such decree or order unstayed and in effect for a period of 60 consecutive days.

(F) If the College shall default in the payment of the principal of or interest on any other obligation of the College for borrowed money in an amount in excess of \$100,000 as and when the same shall become due and payable by lapse of time, by declaration, by call for redemption or otherwise and such default shall continue beyond the period of grace, if any, allowed with respect thereto; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the indebtedness is commenced, (i) the College in good faith commences proceedings to contest the existence or payment of such indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company for the payment of such indebtedness.

(G) If the College shall default under any indenture, agreement or other similar instrument under which any evidence of indebtedness of the College in an amount in excess of \$100,000 may be issued and such default results in the formal acceleration of the maturity of any indebtedness of the College outstanding thereunder; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the indebtedness is commenced, (i) the College in good faith commences proceedings to contest the existence or payment of such indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company for the payment of such indebtedness. (Section 7.01).

Remedies on Default. Whenever any Event of Default referred to in Section 7.01 shall have happened and be subsisting, the Agency may take the following remedial steps:

(A) In the case of an Event of Default described in Section 7.01(A), the Agency may take whatever action at law or in equity necessary or desirable to collect the Note Payments then due, including declaring the payment obligation evidenced by the Notes to be immediately due and payable;

(B) In the case of an Event of Default described in Section 7.01 other than in Section 7.01(A), the Agency may take whatever action at law or in equity necessary or desirable to enforce the performance, observance or compliance by the College with any covenant, condition or agreement by the College under the Agreement; or

(C) In the case of an Event of Default described in Section 7.01 other than in Section 7.01(A) which results in the Bonds being declared immediately due and payable, the Agency shall declare the payment obligation evidenced by the Notes to be immediately due and payable.



In the enforcement of the remedies provided in Section 7.02, the Agency may treat all expenses of enforcement, including, without limitation, legal, accounting and advertising fees and expenses, as additional amounts payable by the College then due and owing. (Section 7.02).

Bond Insurer Rights to Approve Reorganization Plan. Any reorganization or liquidation plan with respect to the College must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation, the Bond Insurer shall have the right to vote on behalf of all Series B Bondowners absent an Insurer Default. (Section 7.08).

Amendments, Changes and Modifications. Subsequent to the issuance of the Bonds and prior to Payment of the Bonds, the Agreement and the Bond Indenture may not be effectively amended, changed, modified, altered or terminated except in accordance with the Bond Indenture. (Section 9.10).

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## APPENDIX D

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NEW YORK, NY 10019  
(212) 839 5300  
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BEIJING	GENEVA	SAN FRANCISCO
BRUSSELS	HONG KONG	SHANGHAI
CHICAGO	LONDON	SINGAPORE
DALLAS	LOS ANGELES	TOKYO
FRANKFURT	NEW YORK	WASHINGTON, DC

FOUNDED 1866

October 31, 2006

Vermont Educational and Health  
Buildings Financing Agency  
Montpelier, Vermont

Ladies and Gentlemen:

We have examined Title 16, Chapter 131, Sections 3851-3862, Vermont Statutes Annotated, as amended (the “Act”) and certified copies of the proceedings of the Board of Vermont Educational and Health Buildings Financing Agency (the “Board”), a body corporate and politic constituting a public instrumentality of the State of Vermont (the “Agency”), authorizing the issuance of revenue bonds of the Agency hereinafter described and other proofs submitted relative to the issuance of the following bonds (the “Series 2006A Bonds” and the “Series 2006B Bonds” and, collectively, the “Bonds”):

**VERMONT EDUCATIONAL AND HEALTH BUILDINGS  
FINANCING AGENCY REVENUE BONDS  
(MIDDLEBURY COLLEGE PROJECT)**

**\$35,425,000 SERIES 2006A  
and  
\$56,575,000 SERIES 2006B, PERIODIC AUCTION RESET SECURITIES (PARS<sup>SM</sup>)**

**Dated, maturing and bearing interest  
all as provided in the Bond Indenture**

The Bonds are issued under and pursuant to the Act and a Bond Indenture dated as of September 1, 2006 (the “Bond Indenture”), between the Agency and The Bank of New York Trust Company N.A., Boston, Massachusetts, as trustee (the “Trustee”). The Bonds bear interest from their date and are subject to tender and redemption prior to their maturity in the manner and upon the terms and conditions set forth therein. The Bonds are issuable in fully registered form in denominations of \$5,000 or any whole multiple thereof, with respect to the Series 2006A Bonds, and in denominations of \$25,000 and integral multiples thereof, with respect to the Series 2006B Bonds.

Sidley Austin LLP is a limited liability partnership practicing in affiliation with other Sidley Austin partnerships

The Agency will lend the proceeds of the Bonds to The President and Fellows of Middlebury College (the “College”) under the Loan Agreement, dated as of September 1, 2006 (the “Loan Agreement”) between the Agency and the College. The Bonds are payable from payments to be made by the College on its notes (the “Notes”) issued by the College under the Loan Agreement and delivered to the Agency in consideration of the College’s obligation to repay the loan of the proceeds of the Bonds and to perform its obligations under the Loan Agreement, and assigned by the Agency to the Trustee as security for the payment of the Bonds. The Notes are an absolute and unconditional obligation of the College, secured by the general credit of the College and payable from any available moneys of the College.

We have also examined one of the Bonds as executed and authenticated.

Based upon such examinations, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Bond Indenture has been duly authorized and executed by the Agency and is a valid, binding and enforceable agreement in accordance with its terms.
3. The Bonds are valid and binding limited obligations of the Agency payable in accordance with their terms from payments to be made by the College pursuant to the Notes, funds held by the Trustee under the Bond Indenture and money attributable to the proceeds of the Bonds and the income from the investment thereof.
4. The Loan Agreement has been duly authorized and executed by the Agency and the College and is a valid, binding and enforceable agreement in accordance with its terms.
5. The Bonds shall not be deemed to constitute a debt or liability of the State of Vermont, and neither the faith and credit nor the taxing power of the State of Vermont is pledged for the payment of the principal of or the interest on the Bonds.
6. Assuming compliance by the College and the Agency with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the interest on the Bonds is not includible in gross income for federal income tax purposes under existing statutes, regulations and court decisions. Interest on the Bonds will not be treated as a specific preference item in calculating the alternative minimum tax on individuals and corporations imposed by the Code; provided, however, such interest will be included in the computation of the alternative minimum tax on corporations imposed by the Code. Failure by the Agency or the College to comply with their respective covenants to comply with the provisions of the Code regarding use, expenditure, and investment proceeds of the Bonds and, if required, the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactive to their date of issuance. The covenant of the Agency described above does not require the Agency to make any financial contribution for which it

does not receive funds from the College. The opinion expressed in the first sentence of this paragraph may not be relied upon to the extent that the exclusion from gross income of the interest on the Bonds for federal income tax purposes is adversely affected as a result of the taking of any action in reliance upon the opinion of counsel other than this firm. In rendering the opinion set forth in the first sentence of this paragraph, we have relied upon the representations made by the College with respect to certain material facts within its knowledge which we have not independently verified and the opinion of Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, counsel for the College, that the College is an organization described in Section 501(c)(3) of the Code or corresponding provisions of prior law and such counsel is not aware of any actions taken by the College which would jeopardize such status. Other than as described herein, we have not addressed and we are not opining on the tax consequences to any investor of the investment in, or receipt of any interest on, the Bonds.

The Act provides that bonds of the Agency and the income therefrom shall at all times be exempt from taxation in the State of Vermont, except for transfer and estate taxes.

The enforceability of the Bond Indenture and the Loan Agreement and the obligations of the aforementioned parties with respect to such documents are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally. To the extent that the remedies under the Bond Indenture and the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

In rendering this opinion we have relied, without independent investigation, upon the opinion of Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, counsel to the College, with respect to the due organization and valid existence of the College, its power and authority with respect to the transactions contemplated by, and its due authorization, execution and delivery of, the Notes and the Loan Agreement.

Respectfully submitted,

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## PARS PROVISIONS

### Definitions

In addition to the words and terms elsewhere defined in this Official Statement, the following words and terms as used in this Appendix E and elsewhere in this Official Statement have the following meanings with respect to the Series B Bonds in a PARS Rate Period unless the context or use indicates another or different meaning or intent:

“Agent Member” means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

“All Hold Rate” means, as of any Auction Date, 60% of the PARS Index in effect on such Auction Date.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with the provisions of the Bond Indenture and will initially be Deutsche Bank Trust Company Americas.

“Auction Agreement” means an agreement between the Auction Agent and the Paying Agent pursuant to which the Auction Agent agrees to follow the procedures specified in the Bond Indenture, with respect to the Series B Bonds while bearing interest at a PARS Rate, as such agreement may from time to time be amended or supplemented.

“Auction Date” means, with respect to the Series B Bonds, (a) if the Series B Bonds are in a daily Auction Period, each Business Day unless such day is the last Business Day prior to the conversion from a daily Auction Period to another Auction Period, (b) if the Series B Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if the Series B Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series B Bonds (whether or not an Auction will be conducted on such date); provided, however, that the last Auction Date with respect to the Series B Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period will be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Series B Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Series B Bonds; and provided, further, that if the Series B Bonds are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day next preceding the Conversion Date for the Series B Bonds and (y) the Business Day next preceding the final maturity date for the Series B Bonds. The last Business Day of a Special Auction Period will be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion. The first Auction Date for the Series B Bonds is set forth on the inside front cover of this Official Statement.

“Auction Period” means with respect to the Series B Bonds:

- (a) a Special Auction Period;
- (b) with respect to Series B Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;
- (c) with respect to Series B Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day

(d) with respect to Series B Bonds in a 14-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 14 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the second Sunday thereafter (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), (ii) Mondays, a period of generally 14 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the second Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 14 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the second Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 14 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the second Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 14 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the second Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

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(f) with respect to Series B Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (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), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

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

(h) with respect to Series B 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 April 30 or October 31;

provided, however, that

(a) if there is a conversion of Series B Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-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 next succeeding 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), (ii) from a daily Auction Period to a 14-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 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) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 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) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 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) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of Series B Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-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 next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of

(c) if there is a conversion of Series B Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-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 next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of Series B Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-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 next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to 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 Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

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and (iv) from a daily Auction Period to 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 Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Interest Rate because Sufficient Clearing Bids do not exist, the Auction Period will automatically change to a seven-day Auction Period.

“Auction Procedures” means the procedures for conducting Auctions for the Series B Bonds during a PARS Rate Period set forth in the Bond Indenture and summarized in this Appendix E.

“Auction Rate” means for the Series B Bonds for each Auction Period, (a) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such Series B Bonds are the subject of Submitted Hold Orders, the All Hold Rate with respect to such Series B Bonds and (b) if Sufficient Clearing Bids do not exist, the Maximum Interest Rate with respect to such Series B Bonds.

“Available Bonds” means for the Series B Bonds on each Auction Date, the aggregate principal amount of the Series B Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) of “Orders by Existing Owners and Potential Owners” of this Appendix E.

“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 the Bond Indenture that is a member of, or a direct participant in, the Securities Depository, that has been selected by the College, with the consent of the Agency and Goldman, Sachs & Co., so long as Goldman, Sachs & Co. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Agency and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in the Bond Indenture, as such agreement may from time to time be amended or supplemented.

“Conversion Date” means the date on which the Series B Bonds convert from one interest rate period to another interest rate period.

“Existing Owner” means a Person who is listed as the beneficial owner of the Series B Bonds in the records of the Auction Agent; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Hold Order” has the meaning specified in subsection (a) of “Orders by Existing Owners and Potential Owners” of this Appendix E.

“Initial Period” means for the Series B Bonds the period from the Closing Date to but not including the date shown on the inside front cover of this Official Statement.

“Interest Payment Date” with respect to the Series B Bonds bearing interest at PARS Rates, means the date shown on the inside front cover of this Official Statement 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 183 days, the Business Day immediately following such Special Auction Period, or (ii) more than 182 days, each May 1 and November 1 (or such other semiannual cycle as then determined by the College) and on the Business Day immediately following such Special Auction Period.

“Internal Submission Deadline” means the internal deadline established by each Broker-Dealer after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer. Initially, the Internal Submission Deadline shall be 12:15 P.M. New York City time for any Auction in an Auction Period other than a daily Auction Period and 10:15 A.M. New York City time for any Auction in a daily Auction Period. Any Broker-Dealer may change the times referred to in the prior sentence as they relate to such Broker-Dealer by giving notice to the Auction Agent. Notwithstanding the foregoing, the Internal Submission Deadline is implemented for the benefit of the Broker-Dealers and may be waived by any individual Broker-Dealer in any particular circumstance in the sole discretion of such Broker-Dealer.

“LIBOR” means on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%) for deposits in U.S. dollars for a one-month period which appears on the Telerate page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market then on the next preceding day on which such dealings were transacted in such market.

“Maximum Interest Rate” means the lesser of twelve percent (12%) or the maximum rate permitted by applicable law.

“Order” means a Hold Order, Bid or Sell Order.

“PARS” means the Series B Bonds while they bear interest at the PARS Rate.

“PARS Index” will have the meaning specified in “PARS Index” of this Appendix E.

“PARS Rate” means for the Series B Bonds, the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with the Bond Indenture as summarized under “Determination of PARS Rate” of this Appendix E; provided, however, in no event may the PARS Rate exceed the Maximum Interest Rate.

“PARS Rate Conversion Date” means with respect to the Series B Bonds, the date on which the Bonds convert from an interest rate period other than a PARS Rate Period and begin to bear interest at a PARS Rate.

“PARS Rate Period” means after the Initial Period any period of time commencing on the day following the Initial Period to but not including a Conversion Date and the period from and including a PARS Rate Conversion Date to but excluding the next Conversion Date.

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

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the College, the Paying Agent and each Broker-Dealer.

“Securities Depository” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Agency.

“Sell Order” has the meaning specified in “Orders by Existing Owners and Potential Owners” of this Appendix E.

“Special Auction Period” means, with respect to PARS Bonds, (a) any period of 182 days or less which is divisible by seven and begins on an Interest Payment Date and ends (i) in the case PARS Bonds with Auctions generally conducted on Fridays, 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, (ii) in the case of PARS Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of PARS Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of PARS Bonds with

Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of PARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of the PARS Bonds.

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

“Submitted Bid” has the meaning specified in “Determination of PARS Rate” of this Appendix E.

“Submitted Hold Order” has the meaning specified in “Determination of PARS Rate” of this Appendix E.

“Submitted Order” has the meaning specified in “Determination of PARS Rate” of this Appendix E.

“Submitted Sell Order” has the meaning specified in “Determination of PARS Rate” of this Appendix E.

“Sufficient Clearing Bids” means with respect to the Series B Bonds, an Auction for which the aggregate principal amount of the Series B Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Interest Rate is not less than the aggregate principal amount of the Series B Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Interest Rate.

“Winning Bid Rate” means with respect to the Series B Bonds the lowest rate specified in any Submitted Bid which if selected by the Auction Agent as the PARS Rate would cause the aggregate principal amount of the Series B 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**

### ***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 will be reasonably acceptable to such Broker-Dealer, an Order as to:
    - (A) the principal amount of the Series B Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period;
    - (B) the principal amount of the Series B Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period will not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period will be less than the rate per annum then specified by such Existing Owner); and/or
    - (C) the principal amount of the Series B Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the next succeeding Interest Payment Date (or on the same day in the

case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.

(ii) each Potential Owners may submit to a Broker-Dealer an Order as to the principal amount of the Series B Bonds, if any, which each such Potential Owner offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

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

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

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

(B) such principal amount or a lesser principal amount of the Series B Bonds to be determined as described in subsection (a)(v) of the section below entitled “Allocation of Series B Bonds” if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate; or

(C) a lesser principal amount of the Series B Bonds to be determined as described in subsection (b)(iv) of the section below entitled “Allocation of Series B Bonds” if such specified rate will be higher than the Maximum Interest Rate and Sufficient Clearing Bids do not exist.

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

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

(B) such principal amount or a lesser principal amount of the Series B Bonds as described in subsection (b)(iv) of the section below entitled “Allocation of Series B Bonds” if Sufficient Clearing Bids do not exist.

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

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

(B) such principal amount or a lesser principal amount of the Series B Bonds as described in subsection (a)(vi) of the section below entitled “Allocation of Series B Bonds” if the rate determined by the Auction Procedures on such Auction Date will be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the Series B Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof will be rounded down to the nearest \$25,000, and the Auction Agent will conduct the Auction Procedures as if such Order had been submitted in such lower amount;

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

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

(iv) Any Order by any Existing Owner or Potential Owner is revocable until the Internal Submission Deadline. After the Internal Submission Deadline all Orders are irrevocable.

***Submission of Orders by Broker-Dealers to Auction Agent.***

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

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the Series B Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the Series B Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the Series B 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 the Series B Bonds, if any, subject to any Sell Order placed by such Existing Owner.

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

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

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

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

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

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

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate will be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the Series B Bonds held by such Existing Owner over the principal amount of the Series B Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

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

(D) the principal amount, if any, of such Series B Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) will be treated as the subject of a Bid by a Potential Owner.

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

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

(f) Neither the Agency, the College, the Paying Agent nor the Auction Agent will 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.

***Determination of PARS Rate.***

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for the Series B Bonds, the Auction Agent will advise the Broker-Dealers by telephone or other electronic communication acceptable to the parties of the All Hold Rate, the Maximum Interest Rate and the PARS Index for the Series B Bonds and the Series B Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for the Series B Bonds, the Auction Agent will 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 hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and will 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 subsection (b) above, the Auction Agent will advise the Paying Agent by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Paying Agent will promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent fails to calculate or, for any reason (including, but not limited to, the lack of a duly appointed Broker-Dealer), fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period will be the same as the preceding Auction Period and the PARS Rate for the new Auction Period will be the same as the PARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period will be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the PARS Rate in effect for the preceding Auction Period



will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended. Notwithstanding the foregoing, no PARS Rate will be extended for more than 35 days. If at the end of 35 days the Auction Agent fails to calculate or provide the Auction Rate, the PARS Rate will be the Maximum Interest Rate

(e) In the event of a failed conversion, with respect to the Series B Bonds and the Series B Bonds to a Term Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period or a Fixed Rate Period 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 PARS Rate for the next Auction Period will be the Maximum Interest Rate and the Auction Period will be a seven-day Auction Period.

(f) If the Series B Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the PARS Rate will be the Maximum Interest Rate.

***Allocation of Series B Bonds.***

(a) In the event of Sufficient Clearing Bids for the Series B Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders will be accepted or rejected as follows in the following order of priority:

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

(ii) the Submitted Sell Order of each Existing Owner will be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate will be rejected, thus requiring each such Existing Owner to sell the Series B 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 will be accepted, thus requiring each such Existing Owner to continue to hold the Series B 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 will be accepted, thus requiring each such Potential Owner to purchase the Series B 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 will be accepted, thus requiring each such Existing Owner to continue to hold the Series B Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the Series B Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Series B Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which will be the principal amount of Outstanding Series B Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which will be the aggregate principal amount of Outstanding Series B 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 will be rejected, thus requiring each such Existing Owner to sell any excess amount of the Series B Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate will be accepted, thus requiring each such Potential Owner to purchase the Series B Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the Series B Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Series B Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which will be the principal amount of Outstanding Series B Bonds

subject to such Submitted Bid and the denominator of which will be the sum of the aggregate principal amount of Outstanding Series B 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 will be rejected; and

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

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

(i) the Submitted Hold Order of each Existing Owner will be accepted, thus requiring each such Existing Owner to continue to hold the Series B 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 Interest Rate will be accepted, thus requiring each such Existing Owner to continue to hold the Series B 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 Interest Rate will be accepted, thus requiring each such Potential Owner to purchase the Series B Bonds that are the subject of such Submitted Bid;

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

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Interest Rate will be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Series B Bonds which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole discretion, round up or down the principal amount of the Series B Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Series B Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date will be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Series B Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of the Series B Bonds on any Auction Date, the Auction Agent will by lot, in such manner as it will determine in its sole discretion, allocate the Series B Bonds for purchase among Potential Owners so that the principal amount of PARS purchased on such Auction Date by any Potential Owner will be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing the Series B Bonds on such Auction Date.

***Notice of PARS Rate.***

(a) On each Auction Date, the Auction Agent will notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to the Series B Bonds for which an Auction was held on such Auction Date:

- (i) the PARS 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 the Series B 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 the Series B Bonds, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the Series B 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 the Series B 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 the Series B 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 the Series B 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, if requested: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the PARS 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 Potential 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 the Series B Bonds to be purchased pursuant to such Bid (including, with respect to the Series B 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 B 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 the Series B Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

***PARS Index.***

(a) For PARS in an Auction Period of 35 days or less, the PARS Index is LIBOR. For PARS in an Auction Period of more than 35 days, the PARS Index is equal to the yield on the United States Treasury security on the date the Auction Period began which has a maturity which most closely matches the last day of the Auction Period.

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

(c) The determination of the PARS Index as provided herein will be conclusive and binding upon the Agency, the College, the Paying Agent, the Broker-Dealers, the Auction Agent and the Owners of the Series B Bonds.

***Miscellaneous Provisions Regarding Auctions.***

(a) In this Appendix E, each reference to the purchase, sale or holding of the “Series B Bonds” will refer to beneficial interests in the Series B Bonds, unless the context clearly requires otherwise.

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

(c) If the Securities Depository notifies the Agency that it is unwilling or unable to continue as owner of the Series B Bonds or if at any time the Securities Depository will 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 Agency within 90 days after the Agency receives notice or becomes aware of such condition, as the case may be, the Agency will execute and the Paying Agent will authenticate and deliver certificates representing the Series B Bonds. Such Series B Bonds will be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, will instruct the Agency and the Paying Agent.

During a PARS Rate Period, so long as the ownership of the Series B 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 B 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 Series B Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Series B Bonds to that Broker-Dealer or another customer of that Broker-Dealer will 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 B Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

***Changes in Auction Period or Auction Date.***

(a) Changes in Auction Period. (i) During any PARS Rate Period, the College, with the consent of the Agency may, from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Series B Bonds in a PARS Rate Period among daily, seven-days, 14-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Series B Bonds; provided, however, in the case of a change from a Special Auction Period, the date of such change will be the Interest Payment Date immediately following the last day of such Special Auction Period. The College will initiate the change in the length of the Auction Period by giving written notice to the Agency, the Paying Agent, the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period will change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period will be for a period of one day, seven-days, 14-days, 28-days, 35-days, three months, six months or a Special Auction Period and will be for all of the Series B Bonds in a PARS Rate Period.

(iii) The change in the length of the Auction Period for the Series B Bonds will not be allowed unless Sufficient Clearing Bids existed at the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for the Series B Bonds will take effect only if (A) the Paying Agent and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Agency consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period will be the Maximum Interest Rate and the Auction Period will be a seven-day Auction Period.

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

(b) Changes in Auction Date. During any PARS Rate Period, the Auction Agent, with the written consent of the College, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Series B Bonds. The Auction Agent will provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Paying Agent, the Agency, the College, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Payment Date relating to a Special Auction Period will be adjusted accordingly.

## **Auction Agent**

### ***Auction Agent.***

(a) The Auction Agent shall be selected and engaged by the College and shall be appointed by the Paying Agent at the written direction of the College, to perform the functions specified in the Bond Indenture. The Auction Agent will designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it under the Bond Indenture by a written instrument, delivered to the College, the Paying Agent and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as will be satisfactory to the College, the Agency and the Paying Agent. The College shall be solely responsible for the payment of any fees, expenses and other charges owing from time to time to the Auction Agent.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Series B Bonds with the same rights as if such entity were not the Auction Agent.

***Qualifications of Auction Agent; Resignation; Removal.*** The Auction Agent will 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 NASD 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 Indenture 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 Indenture by giving at least ninety (90) days notice to the College, the Agency, the Bond Insurer and the Paying Agent. The Auction Agent may be removed at

any time by the College by written notice, delivered to the Auction Agent, the Agency, the Bond Insurer and the Paying Agent. Upon any such resignation or removal, a successor Auction Agent meeting the requirements of this paragraph shall be selected and engaged by the College and appointed by the Paying Agent at the written direction of the College. In the event of the resignation or removal of the Auction Agent, the Auction Agent will pay over, assign and deliver any moneys and the Series B Bonds held by it in such capacity to its successor. The Auction Agent will continue to perform its duties until its successor has been appointed by the Paying Agent. 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 College, the Agency and the Paying Agent even if a successor Auction Agent has not been appointed.

**Financial Guaranty Insurance Policy**

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

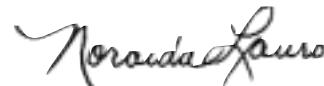
Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

F-1



Authorized Officer of Insurance Trustee

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