

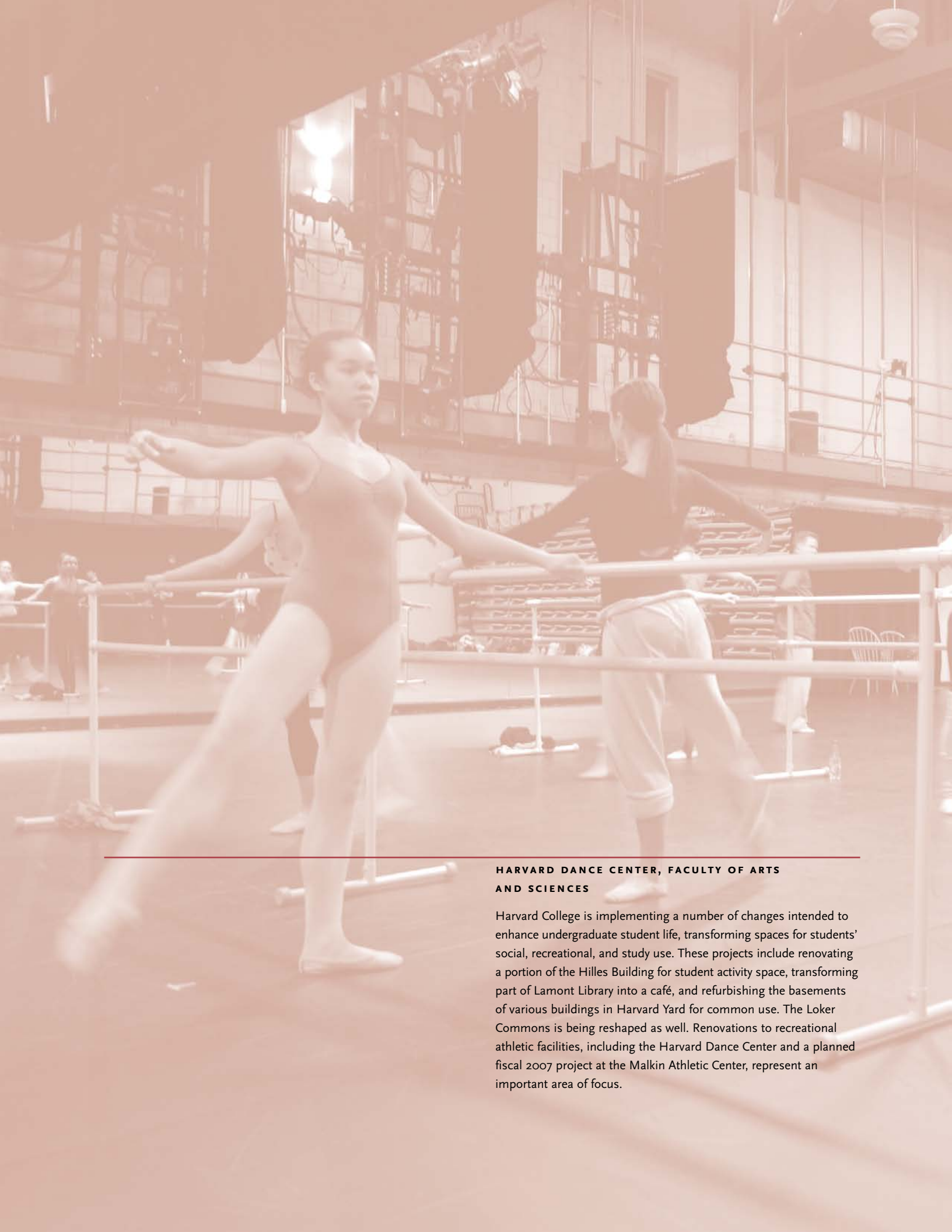
The background of the cover is a photograph of the Harvard College building, featuring large classical columns and two large banners with the Harvard crest. The crest is a shield with a red border, containing three open books with the words 'VE', 'RI', and 'TAS' on them. Below the building, a large, dense crowd of students in graduation gowns and caps is visible. The entire image has a reddish-orange tint.

FINANCIAL REPORT

TO THE BOARD OF OVERSEERS OF

HARVARD COLLEGE

FISCAL YEAR 2005–2006



**HARVARD DANCE CENTER, FACULTY OF ARTS
AND SCIENCES**

Harvard College is implementing a number of changes intended to enhance undergraduate student life, transforming spaces for students' social, recreational, and study use. These projects include renovating a portion of the Hilles Building for student activity space, transforming part of Lamont Library into a café, and refurbishing the basements of various buildings in Harvard Yard for common use. The Loker Commons is being reshaped as well. Renovations to recreational athletic facilities, including the Harvard Dance Center and a planned fiscal 2007 project at the Malkin Athletic Center, represent an important area of focus.

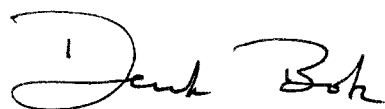
To the Members and Friends of the Harvard Community:

I am pleased to present Harvard University's financial report for fiscal 2006. Although it was a year of significant transition in many parts of the University, the financial results remained strong. The market value of the endowment rose to a record \$29.2 billion as of June 30, 2006, despite the departure of the President of Harvard Management Company and more than 30 members of his staff. Endowment funds provided over \$930 million, or almost a third, of Harvard's total income. Fundraising receipts were the second highest in the University's history, thanks to the generosity of our alumni and friends, and strong financial management produced an operating surplus for the seventh year in a row.

As we enter the new academic year, we are committed to sustaining Harvard's ambitious agenda. We are proceeding to make systematic plans for the expanded campus in Allston, with initial efforts focused on the development of a first science complex and the completion of a master plan, even as we continue to make enhancements to our campus in Cambridge. Building on the excellent report of the University Planning Committee for Science and Engineering, we will devote much effort to considering how we can increase opportunities for collaboration in an array of scientific fields and interdisciplinary projects. Finally, I very much hope that the Faculty of Arts and Sciences will bring the undergraduate curriculum review to a successful conclusion and give careful consideration to the anticipated report of a task force on enhancing teaching convened by the Dean of the Graduate School of Arts and Sciences.

Given the scope of our activities and ambition, we need to invest our resources wisely, administer our programs efficiently, and encourage the ongoing engagement and support of our wonderful community of students, faculty, staff, alumni, and friends. I look forward to an exciting and productive year.

Sincerely,

A handwritten signature in black ink, reading "Derek Bok". The signature is fluid and cursive, with the first name "Derek" and last name "Bok" clearly distinguishable.

Derek Bok
INTERIM PRESIDENT

October 6, 2006

To the Board of Overseers of Harvard College:

With the fourth straight year of outstanding investment results boosting the endowment to \$29.2 billion, as well as a small operating surplus, the University ended fiscal 2006 in solid financial health. These financial results afford Harvard important opportunities, enabling the continued pursuit of excellence in teaching and research. The University has an ambitious set of priorities for the coming years, including developing the Allston campus, fostering interdisciplinary science initiatives, promoting the diversity and excellence of its faculty, and improving the student experience. We are committed to supporting these efforts through careful stewardship of Harvard's investments and resources.

FINANCIAL HIGHLIGHTS

- ❖ Harvard Management Company achieved a 16.7% total return for fiscal 2006, resulting in a five-year annualized return of 13.5%. Total net assets, including the endowment and other funds, rose from \$30.6 billion to \$34.9 billion.
- ❖ The University's fiscal 2006 operating surplus of \$0.1 million was comprised of a \$52.7 million unrestricted deficit and a \$52.8 million surplus in restricted funds (funds that must be spent in accordance with donor terms).
- ❖ Total revenue rose 7%, due to steady growth in most revenue categories.
- ❖ Student income, net of scholarships applied to student income, increased 5%, while total scholarships and other student awards climbed 8%, outpacing tuition growth for the eighth consecutive year.
- ❖ Sponsored funding for research and training rose 1%. This increase reflects higher funding for the direct costs of sponsored programs, partly offset by a decrease in the recovery of indirect costs. This decline was largely due to higher expenses that are exempt from indirect cost recovery, such as subcontract costs and pharmaceutical purchases associated with the President's Emergency Plan for AIDS Relief (PEPFAR) project.
- ❖ Thanks to the generosity of alumni and friends, gifts totaled an impressive \$595.8 million. Endowment gifts totaled \$273.4 million, current use gifts were \$201.9 million, and grants for non-federal research as well as gifts for loans, facilities, and split interest agreements comprised the remaining \$120.5 million.

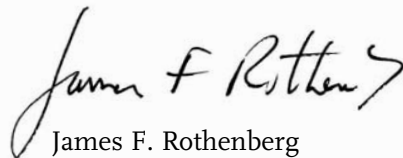
- ❖ Endowment income distributed for operations rose 9% to \$933.3 million, the result of an 8% increase in the distribution rate as well as distributions on additions to the endowment. The fiscal 2006 spending rate was 4.3%, slightly below the targeted range of 4.5% to 5.0%. Endowment income distributed for operations remained Harvard's largest source of income in fiscal 2006, representing 31% of total operating income compared with 21% ten years ago. This growth has resulted from the generous support of our alumni and friends as well as the endowment's continued strong performance.
- ❖ Total expenses increased 9%, primarily driven by growth in fringe benefits, space and occupancy costs, and other expenses.
- ❖ The University spent \$1.5 billion on compensation, an increase of 5% over fiscal 2005. This increase included 3% growth in total salary and wage costs, and a 12% rise in benefits expenses. The higher benefits expenses reflect significant growth in pension expenses and health costs. Rising health costs continue to be a concern, prompting the University to develop a multi-year strategy that addresses cost containment in this area.
- ❖ Space and occupancy expenses increased 16%, primarily due to higher utilities and interest costs. In addition, the University spent a total of \$422.5 million on physical renewal, new facilities, and acquisitions. Significant expenditures were incurred for construction of the Northwest Science Building, the Laboratory for Integrated Science and Engineering, the Center for Government and International Studies, several residential housing complexes, the Biological Research Infrastructure facility, as well as the North Plant and electrical substation. Substantial renovations occurred at the University Operations Services Blackstone facility, Hamilton Hall, and the New College Theatre.
- ❖ Other expenses rose 19%, largely due to higher purchased services costs and interest on working capital debt, as well as travel, advertising, and publishing costs.

While Harvard has benefited from another year of financial success, uncertainty exists as to whether the endowment can continue to grow at its recent pace. In addition, the prospect that revenue growth may not outpace inflation is a concern, particularly in light of questions regarding future levels of federal sponsored research support. Continued fiscal prudence will be necessary across the University to both mitigate these potential risks and maintain Harvard's financial strength.



Elizabeth Mora

INTERIM VICE PRESIDENT FOR FINANCE



James F. Rothenberg

TREASURER

October 6, 2006



Nigerian doctors at the Botswana-Harvard Partnership Lab



Sketch of the future Harvard Medical School Dubai Center Institute for Postgraduate Education and Research



View from the David Rockefeller Center for Latin American Studies office in Sao Paulo, Brazil



Vasundhara Raje (*left*), chief minister of Rajasthan, and former President Summers in Jaipur, Rajasthan state, India

HARVARD'S INTERNATIONAL ENDEAVORS

The University's international projects and presence continued to grow in fiscal 2006. Notable international endeavors included the ongoing PEPFAR project for AIDS relief in Africa, in its third of five years; significant developments in India, such as launching the HBS India Research Center and a new HSPH agreement with the Indian government to help establish five public health institutes; and

continued growth in the number of undergraduates studying abroad. In addition, the position of Vice Provost for International Affairs was created to provide central oversight for and encourage international growth, as well as coordinate the University's international efforts across the academic units.

Analysis of Financial Results

The University maintained excellent financial health in fiscal 2006, with a small operating surplus and strong endowment growth.

OVERVIEW

The University realized an overall operating surplus of \$0.1 million in fiscal 2006, comprised of a restricted operating surplus of \$52.8 million and an offsetting unrestricted operating deficit of \$52.7 million. In fiscal 2005, the University had a \$43.6 million operating surplus, consisting of \$34.9 million and \$8.7 million of restricted and

unrestricted operating surpluses, respectively. At year-end, the University's total assets were \$44.3 billion, and total liabilities were \$9.4 billion. Net assets of \$34.9 billion included \$29.2 billion of endowment.

FINANCIAL RESULTS

REVENUE Operating revenue increased 7% to \$3.0 billion in fiscal 2006, reflecting steady growth in most revenue categories.

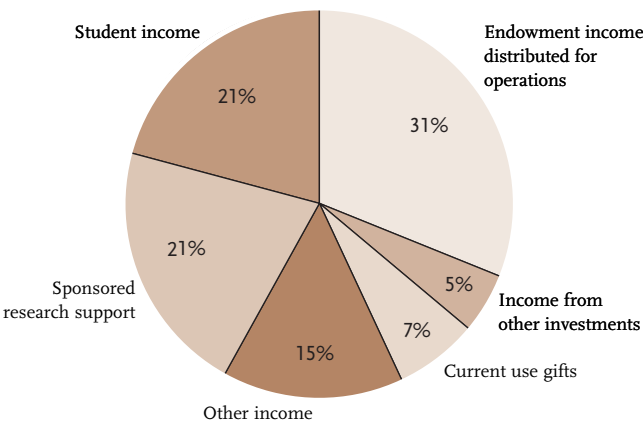
STUDENT INCOME Student income increased 5% from fiscal 2005, totaling \$616.1 million in fiscal 2006. Revenue from undergraduate and graduate tuition rose 6% and 5%, respectively, slightly higher than the changes in tuition rates. Total student room and board income grew 3%, primarily due to the annual increase in the undergraduate room and board rate. Continuing and executive education revenue rose 10%, largely a result of increased enrollment in programs at Harvard Business

Harvard University's many achievements over the past fiscal year ranged from the areas of teaching and student life to research and international endeavors. The following highlights provide a sampling of the accomplishments of each major academic unit and of the University as a whole.

School, the Kennedy School of Government (KSG), and the Extension School, as well as new programs at KSG. Scholarships applied to student income continued to outpace tuition growth, with a 9% increase in both fiscal 2006 and 2005.

SPONSORED RESEARCH SUPPORT Sponsored revenue remained essentially flat, increasing only 1% from \$626.4 million in fiscal 2005 to \$634.2 million in fiscal 2006. The University received 82% of its sponsored research funding from the federal government, 12% from foundations, and 6% from other sources, including corporations; foreign, state, and local governments; as well as research institutes. The federal and non-federal components of sponsored support each grew 1% in fiscal 2006.

FISCAL YEAR 2006 OPERATING REVENUE



FACULTY OF ARTS AND SCIENCES

The fruits of the past few years' efforts to create a new undergraduate curriculum are being realized in several ways: new foundational courses in the life sciences were launched in the fall of 2005, and new physical sciences courses began in September 2006; secondary fields of study

for undergraduates have been approved; and expansion of the College's advising program is well underway. Improvements to student life facilities are also notable. A new Dance Center opened in the fall of 2005, and construction of the New College Theater and reshaping of the Loker

Commons are well underway. Renovations to the Malkin Athletic Center will soon begin. FAS is in the midst of the largest physical expansion in decades, with a particular focus on the sciences. The new Biology Research Infrastructure building opened in September 2006, and construction

of the Laboratory for Integrated Science and Engineering and the Northwest Science Building are continuing. Together, these buildings will add 900,000 square feet of laboratory and teaching space. Plans have been proposed to transform the Division of Engineering and Applied

Sciences into a separate school within FAS. There are plans to expand the engineering and applied sciences faculty from 70 to approximately 100 in the coming years, further bolstering the University's interdisciplinary scientific strength.

Various agencies of the Department of Health and Human Services, including most notably the National Institutes of Health (NIH), funded \$404.4 million or 78% of the University's federal sponsored research in fiscal 2006, growing from \$401.2 million or 79% of federal funding in fiscal 2005. The National Science Foundation supplied 7% of fiscal 2006 federal support, with the remainder awarded by other federal entities including the Departments of Defense, Energy, and Education, as well as the National Aeronautics and Space Administration. Approximately 95% of fiscal 2006 federal sponsored funding was received by three Schools: Harvard Medical School (HMS), 38%; Harvard School of Public Health (HSPH), 30%; and the Faculty of Arts and Sciences (FAS), 27%.

The small fiscal 2006 increase in NIH funding is noteworthy, especially in contrast to the significant growth in NIH funding in recent years. A continuation of this slower growth trend over time would prove especially challenging to those Schools most reliant on NIH funding.

The indirect costs of sponsored programs include facilities operations and maintenance, depreciation, debt service, library costs, and administrative expenses. These costs are allocated as overhead to the direct costs of sponsored projects, enabling their partial recovery from sponsors. While federal and non-federal direct support increased slightly in fiscal 2006, total indirect cost recovery fell 3% from \$155.6 million in fiscal 2005 to \$150.8

million in fiscal 2006. Federal indirect cost recoveries, representing 27% of total federal support, led the decline, decreasing 3% to \$139.5 million.

The fiscal 2006 decrease in federal indirect cost recovery is primarily attributed to a project funded by the federal government, the President's Emergency Plan for AIDS Relief (PEPFAR). This project aims to train Nigerian, Tanzanian, and Botswanan doctors, nurses, and other health care providers to treat 75,000 patients, with the ultimate goal of empowering these African countries with critical capacity for self-sustenance after the project's end in 2009. In fiscal 2006, HSPH entered the third year of this five-year, \$116.0 million award. The University's total direct costs for the PEPFAR project increased from \$17.9 million in fiscal 2005 to

\$20.5 million in fiscal 2006, while indirect cost recoveries associated with the project declined by \$5.2 million. Two factors contributed to the decline in overhead recovery. Firstly, the award's subcontract expenses grew to over 50% of project costs in fiscal 2006. Subcontract expenses, unlike costs incurred directly by the School, are limited in the amount of overhead recovery, and, therefore, HSPH recaptures comparatively fewer dollars than it would if the costs were directly incurred. Secondly, in fiscal 2006, the University agreed to forego the recovery of indirect costs associated with pharmaceutical purchases for the program.

In fiscal 2006, the University Area (all Schools except for HMS, the Harvard School of Dental Medicine (HSDM), and HSPH) completed

SUMMARY OF FINANCIAL RESULTS

<i>Dollar amounts in millions</i>	2006	2005	2004	2003	2002
Total revenue	\$ 2,999.6	\$ 2,800.9	\$ 2,597.7	\$ 2,472.7	\$ 2,349.0 ¹
Total expenses	2,999.5	2,757.4	2,560.9	2,432.9	2,261.6 ¹
Total gifts	595.8	590.7 ²	549.6 ²	562.4	477.5
Student notes receivable	126.5	128.6	128.6	136.7	151.3
Fixed assets, net	4,078.5	3,797.8	3,468.9	3,168.4	2,774.4
Bonds and notes payable	2,922.2	2,849.1	2,604.7	2,246.9	1,839.5
Net assets—General Operating Account	5,116.1	4,197.6	3,935.5	3,439.4	3,419.9
Net assets—endowment	29,219.4	25,853.0	22,587.3	19,294.7	17,518.0
Total return on general investments ³	16.7%	19.2%	21.1%	12.5%	(0.5)%
Degree student enrollment	19,779	19,731	19,638	19,536	19,539

¹ These numbers are recast to conform with fiscal 2003 presentation.

² These numbers are recast to conform with fiscal 2006 presentation.

³ Total return on general investments is net of all expenses and fees, and includes the impact of revenue-sharing agreements with certain fund managers.



BUSINESS SCHOOL

HBS welcomed Jay Light as its ninth dean. Acting Dean since August 2005, Light is an expert in finance and investment management and has been a member of the faculty since 1970. He has overseen the completion of HBS's \$600.0 million capital campaign, the renovation of Baker

Library, and the launch of new faculty initiatives in health care and science-based business.

The MBA program introduced learning teams—small, diverse groups of students who work together on a range of projects during the first year. In addition, the C. Roland Christensen Center for

Teaching and Learning was established to promote and support teaching excellence and innovation within HBS and provide global leadership in case method teaching and participant-centered learning.



SCHOOL OF DENTAL MEDICINE

Dr. Vicki Rosen assumed the position of Professor and Chair of the Department of Developmental Biology. Dr. Rosen has contributed significantly to the discovery of small protein molecules that induce bone formation and are essential for fracture healing. All of the school's researchers, including Dr. Rosen,

received high accolades from the Scientific Advisory Board in fiscal 2006. HSDM also met with success in its fundraising and patent efforts, generating \$6.0 million of revenue for the School.

negotiation of their federal indirect cost recovery rates through fiscal 2010. The indirect cost recovery rates for HSPH and HMS (including HSDM) have been proposed and are pending negotiations scheduled for the fall of 2006.

Among non-federal sponsors, indirect cost recovery rates are agreed upon independently with each sponsor, are typically much lower than federal rates, and can vary widely from 0% to over 60%. Non-federal indirect cost recovery decreased 7% to \$11.3 million, while non-federal sponsored direct support rose 2% to \$104.9 million. Individual non-federal projects can substantially impact non-federal sponsored revenue and related indirect cost recovery trends for the University in any given year.

In addition to sponsored research funding recorded in the University's financial statements, faculty members and investigators have initiated and guided research in affiliated institutes and centers, including successful inter-institutional facilities crossing a variety of disciplines. The Harvard Stem Cell Institute and the Broad Institute, both now in their third year of activity, are examples of University investigators thriving in innovative and collaborative organizational models. The Broad Institute, a collaborative biomedical research institute that is jointly governed by the University, the Massachusetts Institute of Technology (MIT), and the Broad Foundation, is administratively and financially

housed at MIT. The Broad Institute has been particularly successful at securing funding for its research efforts in fiscal 2006, expending approximately \$90.3 million of sponsored funds.

Finally, the international arena for sponsored programs is expanding, and this growth is expected to continue. The position of Vice Provost for International Affairs was recently established to oversee this work and is expected to become an important part of the University's research operations and compliance infrastructure.

GIFTS FOR CURRENT USE Gifts from alumni and friends provide vital funding for the University's ongoing operations and strategic priorities, such as financial aid and interdisciplinary scientific initiatives. Current use gifts rose 8% in fiscal 2006, totaling \$201.9 million. Of note, the University received a \$20.0 million gift during fiscal 2006 towards a \$100.0 million commitment to support its endeavors at the Broad Institute.

INVESTMENT INCOME Total investment income increased 11% to \$1.1 billion in fiscal 2006. The largest component of investment income, endowment income distributed for operations, increased 9% to \$933.3 million. This growth was due to an 8% increase in the distribution rate as well as the impact of new gifts and other additions to the endowment.



GRADUATE SCHOOL OF DESIGN

In academic year 2005-06, three women were recruited to the senior faculty, doubling the number of women holding the rank of tenured professor or professor in practice at GSD. Several degree programs were reviewed, and a third term was added to the Master in Design Studies program.

Reflecting the continued high priority of financial aid, the average grant award for Master's students increased by 8%, and an employment award program for international students, with benefits similar to the U.S. work-study program, was expanded.

The development function is being

restructured under the direction of a new associate dean for external relations. The School's financial performance also continued to improve, resulting in the third straight year with an unrestricted surplus.



DIVINITY SCHOOL

Fifty years after first admitting women as students, HDS completed a year-long celebration of the achievements of its women graduates and faculty as well as the influence of its pioneering Women's Studies in Religion program. The School also continued its multi-year curricu-

lum redesign, with successful introduction of innovations to the Master of Divinity program and faculty approval of comparable changes to the Master of Theological Studies program. In addition, HDS raised more than \$6.0 million, including funds to endow two new professorships.

The distribution rate as a percentage of endowment market value was 4.3%, just below the targeted spending rate of 4.5% to 5.0%.

OTHER INCOME Other income consists primarily of rental and parking fees, publications revenue, royalties, health and clinic fees, and revenue from other auxiliary enterprises whose activities are consistent with the University's mission. In fiscal 2006, other income rose 9% to \$453.9 million, largely due to incremental rental and royalty income.

EXPENSES The University's operating expenses totaled \$3.0 billion in fiscal 2006, a 9% increase over the prior year. Expense categories that rose significantly included space and occupancy costs, fringe benefits, and other expenses. The University continues to pursue cost savings across all expense categories.

COMPENSATION Compensation and benefits are considered key means of recruiting and retaining exceptional faculty and staff. The many components of the University's compensation and benefits package include: pension plans, tax-deferred annuity programs, health benefits for current and retired employees, a dental plan, life insurance, tuition assistance, child care funding, dependent care resource services, mortgage and educational loan programs, financial planning consultations,

subsidized use of certain University athletic facilities, discounted monthly public transportation passes, and free admission to the University's museums and libraries.

Compensation and benefits costs represented 49% of the University's total expenses in fiscal 2006 and 51% in fiscal 2005. These costs totaled \$1.5 billion in fiscal 2006, an increase of 5% over fiscal 2005. Salaries and wages rose 3%, reflecting annual pay increases and adjustments.

Benefits costs increased 12% and were impacted by several changes. Postretirement health costs escalated 30%, pension expenses rose 9%, and health costs increased 8%. The postretirement health costs and pension expenses were affected by interest rates used to calculate the University's future obligations to its retirees. Actuarial assumptions such as interest rates may cause significant changes in these amounts from year to year. Although the growth in health costs was lower than market trends nationally, this continues to be an area of concern for the University. As a result, a multi-year health care strategy is being developed with several objectives including improved cost efficiency and expanded health plan choices for employees. As a first step, greater cost sharing will be introduced in calendar year 2007 through increases in health plan copayments. This change is projected to save approximately \$1.8 million in calendar year 2007.



GRADUATE SCHOOL OF EDUCATION

In the spring of 2006, Professor Kathleen McCartney was appointed Dean. A leading expert in early childhood education, she had served as Acting Dean since June 2005. Under her guidance, GSE has developed an academic plan focused on training and development, education

leadership, and education policy; strengthened the administrative and financial base of the School; and increased financial aid and fellowships for Master's and doctoral students. GSE sponsored research awards and support from donors increased during the past fiscal year, enabling

progress in several areas including faculty hiring, research, and increased financial aid. Two other results of this incremental funding were the Simon Professorship in Education, Management, and Organizational Behavior as well as the Urban Fellowship program.



KENNEDY SCHOOL OF GOVERNMENT

The new Faculty Steering Committee began a curricular review of the Master in Public Policy program and development of a joint degree program with HBS. The Dean initiated a research program on the capacity of public and private institutions to address major public policy issues.

Building on the fourth consecutive year of operating surpluses, KSG received a \$12.0 million gift to endow the Rappaport Institute for Greater Boston, further strengthening local efforts among Harvard faculty, policymakers, and civic leaders.

In addition to the standard benefits package, the Schools may offer educational and subsidized mortgage loans to their faculty members. The mortgage program helps faculty members cope with the high cost of housing in the metropolitan Boston area. Total loans outstanding to faculty and staff increased 10% to \$131.0 million in fiscal 2006, reflecting new loans associated with faculty growth.

FINANCIAL AID Enhancing the financial aid programs for both undergraduate and graduate students continues to be one of the University's top priorities. Financial aid assists the University in achieving its goal of enrolling all admitted students, regardless of their financial circumstances.

Scholarships and student awards, including amounts applied against student income, increased 8% to \$305.5 million in fiscal 2006. In addition, the University spent \$59.3 million on student employment, loaned \$30.3 million to students, and acted as agent on behalf of specific student recipients for \$14.0 million in aid from outside sponsors. Approximately 65% of scholarships and student awards was funded through gifts from generous alumni and friends, endowment income, and sponsored support, with the remaining 35% provided by other University operating funds.

Over the past ten years, the cost of attending Harvard College has increased 50%, from \$29,550 to \$44,350 per year. During that same ten-year period, the average annual scholarship award has grown 102%, from \$13,950 to \$28,160. The College provides need-based financial aid, while admitting students on a need-blind basis. Almost 70% of undergraduate students receive financial aid, with close to 50% qualifying for need-based scholarship assistance. The average undergraduate aid package consists of grants, loans, and employment, and represents 70% of the total cost of attendance. In the past ten years, financial aid enhancements have generated a 55% decline in the median indebtedness among graduating seniors, from \$15,060 for the Class of 1996 to \$6,850 for the Class of 2006.

A major new financial aid initiative was implemented in fiscal 2005, designed to encourage gifted students from families of low and moderate income to apply to and attend the College. In March 2006, this initiative was expanded to middle income families, so that parents of families with annual income of less than \$60,000 (previously \$40,000) are no longer expected to contribute to the cost of their child's undergraduate education. In addition, the University has reduced the contributions expected of parents of families with income between \$60,000 and \$80,000 (previously between \$40,000 and \$60,000).



LAW SCHOOL

The Law School doubled the number of full-time lecturers in its first-year Legal Research and Writing program from seven to fourteen, reducing class size proportionately. Clinical course offerings continued to expand significantly, especially in the Human Rights and Child Advocacy

areas. As part of a long-range plan to increase the number of faculty focusing on clinical experiences, the first four Clinical Professors of Law were appointed. The student information system project resulted in the first on-line student registrations. HLS also continued planning for

the Northwest Corner project and completed renovation of 23 Everett Street for use by the expanding Berkman Center for Internet and Society, the Petrie-Flom Center for Health Law Policy, Biotechnology, and Bioethics, and the clinical Legal Aid Bureau.



MEDICAL SCHOOL

In August 2006, HMS launched a new MD curriculum, representing the most extensive curricular changes in 20 years. Major new collaborations with outside funders in academic year 2005-06 included a licensing agreement to develop potential therapies for macular degeneration as well as

grants for translational science and core RNAi genetic research. HMS also expanded its international reach, with Harvard Medical International now working on 50 programs in 30 countries and the Division of AIDS and Department of Social Medicine each working in 10 countries.

The University also recently revised its policy on outside awards won by incoming Harvard College students, ranging from scholarships provided by local community groups to nationwide programs such as the National Merit Scholarships. Students receiving financial aid are required to contribute towards the annual cost of attendance through a \$3,750 “self-help expectation” as well as a \$2,150 summer earnings obligation. Previously, outside awards could be used to offset the student self-help expectation, but did not apply to the summer earnings obligation. Students are now able to utilize outside awards to eliminate the summer earnings obligation as well.

These enhanced initiatives are the latest steps in a progressive expansion of undergraduate financial aid that has led to the largest applicant pool and the most competitive admission rate (9.3%) in the history of the College. The Class of 2010 is the College’s most economically diverse to date, with a 22% increase in the number of students from the lowest income backgrounds as compared with the Class of 2009.

Financial aid is also vital in attracting students to the graduate and professional Schools. Between 50% and 97% of each School’s students received financial support in fiscal 2006. The University expanded its Presidential Scholars financial aid program in fiscal 2006, approving an additional \$16.0 million for distribution across the graduate and professional Schools beginning in fiscal 2007. These funds will be available for new

graduate student cohorts entering their programs in fiscal 2007 through fiscal 2009. As with the initial Presidential Scholars program (implemented in fiscal 2004), funding will be provided for Doctoral and Master’s students, with some priority towards those entering public service.

Also in fiscal 2006, the University continued its partnership with a major financial institution to provide commercially funded loans to graduate and professional students, who rely on educational loans or other financing to cover the costs of their programs. The Harvard Educational Loan Program (the HELP program) is particularly important for international students, who are ineligible for federally subsidized education loans. The HELP program assisted close to 2,500 graduate students by providing \$37.5 million of below-market-rate loans in fiscal 2006. In total, this program has now provided over \$105.5 million to nearly 7,200 borrowers since inception. In the coming year, the HELP program volume will likely decline, with approximately \$14.5 million projected to be loaned to 700 students. This anticipated change in volume is due to the advent of a new Federal loan program, Graduate PLUS. The University predicts that many domestic students will migrate to this program, given its benefits, including fixed interest rates and interest rate incentives for timely payment. However, the HELP program is expected to remain a critical financing option for international students.



SCHOOL OF PUBLIC HEALTH

In its international leadership role, HSPH agreed to help establish schools of public health in India and initiated high-level training for Chinese government health officials. With funding from the President’s Emergency Program for AIDS Relief (PEPFAR), the School is providing training and

guidance to partner clinical sites in three African nations, with more than 24,000 people now receiving anti-retroviral therapy. HSPH statisticians created a methodology to examine unprecedented quantities of genetic data, speeding understanding of complex diseases such

as asthma and diabetes. Researchers also identified a protein in mice that regulates bone formation, providing a new prospect for treatment of osteoporosis. The School received gift funding to address childhood obesity and establish Nieman Fellowships in global health journalism.



RADCLIFFE INSTITUTE FOR ADVANCED STUDY

Two Radcliffe Institute fellows were honored with Pulitzer Prizes this spring: Geraldine Brooks (fiction) and Caroline Elkins (general nonfiction). With a 5% acceptance rate, the Radcliffe fellowship program is one of the most competitive of its kind in the world. The Institute also moved

forward with its space plan, opening the newly renovated Radcliffe Gym, now converted into Radcliffe’s central meeting place, and taking the first steps towards moving the fellows into Byerly Hall by the fall of 2008.

The University also maintains its own student loan programs, which are funded through federal support, University capital resources, and donations. Outstanding loans from University funds to current and former students decreased slightly to \$126.5 million in fiscal 2006.

SUPPLIES AND EQUIPMENT In fiscal 2006, supplies and equipment expenses remained flat at \$206.8 million. University-wide contracts with vendor partners together with cost-conscious purchasing practices contained expense growth. During fiscal 2006, the University successfully negotiated competitive pricing for facilities maintenance, repair, and operating supplies, despite significant increases in the marketplace. Other vendor partnerships continued in the areas of office furniture; scientific supplies; personal computers; building heating, ventilation, and air conditioning system controls; as well as audiovisual equipment. The University will continue to evaluate additional vendor savings opportunities in the coming year, while also encouraging increased use of preferred vendors to generate and leverage further savings for the University.

SPACE AND OCCUPANCY Space and occupancy costs totaled \$342.3 million in fiscal 2006, a 16% increase over the prior year. Utilities costs grew 39% due to higher market rates. The University has implemented

strategies for the procurement of electricity and natural gas that have helped to mitigate the effects of volatility in the energy markets. Interest on bonds and notes payable related to capital projects increased 16% as a result of higher interest rates on variable-rate debt and new debt issuances.

OTHER EXPENSES Other expenses consist primarily of purchased services; expenses subcontracted to other institutions for sponsored projects; travel, publishing, interest, and advertising expenses; taxes and fees; as well as postage and telephone costs. In fiscal 2006, other expenses increased 19% to \$663.0 million. Significant growth occurred in payments made to MIT for the Broad Institute as well as interest costs associated with the University's working capital.

Vendor partnerships helped to minimize expenditures in the areas of express mail, photocopiers, and temporary employment. A contract renegotiated with the University's major express mail vendor generated significant cost savings, as did continuation of a convenience copier agreement that was renegotiated in fiscal 2005. In addition, although total temporary staffing expenditures increased, the University's rates were held at fiscal 2005 levels. The University continues to seek additional cost savings by consolidating vendors, negotiating contracts, and leveraging purchasing activity.



THE UNIVERSITY

Jorge Dominguez, professor of government and former director of the Weatherhead Center for International Affairs, was named the first Vice Provost for International Affairs in May 2006. He is overseeing three areas: policy development and risk assessment, crucial to the recent evacuation of Harvard affiliates from

Beirut; development and promotion of the University's international activities, including undergraduate study abroad; and coordination among the academic units' international endeavors, such as a proposed University-wide application for graduate students applying for international research

and travel funding.

In June 2006, the Faculty Development and Diversity Office (FD&D), led by Senior Vice Provost Evelyn Hammonds, issued its first annual report. The report discusses the many accomplishments of FD&D in its inaugural year, including enhanced programs to support fac-

ulty with children, such as augmented child care funding and facilities; improved faculty demographic data collection; and, in collaboration with the College, the new Program for Research in Science and Engineering, designed to provide summer scientific research and career exploration opportuni-

ties to undergraduate science concentrators. The report also describes FD&D's future goals, focused on three spheres: faculty recruitment and development, the University's institutional culture, and intellectual leadership. Through these efforts, FD&D aims to support faculty diversity and excellence.

Review of Endowment Results

Generous donors and expert investment management boosted the University's endowment to a record market value of \$29.2 billion as of June 30, 2006.

ENDOWMENT GIVING

The endowment contains approximately 11,000 separate funds, the majority of which are restricted for specific purposes. Alumni and friends' endowment gifts provide sustained support for the University's core activities of teaching and research, as well as essential funding for strategic priorities.

In fiscal 2006, endowment gifts totaled \$273.4 million, a decrease of 4% from the prior year. Harvard Business School endowment gifts declined, as its capital campaign ended.

This decrease was offset by incremental endowment gifts at several academic units: \$19.6 million for the Dubai Harvard Foundation for Medical Research, supporting scientific research and specialized medical education in the Middle East region; \$16.1 million for the University Art Museums, primarily towards unrestricted operations; and \$14.1 million for the Kennedy School of Government, largely funding the new Rappaport Institute for Greater Boston.

REAL ENDOWMENT GROWTH

	Compound annual rate of growth			
	1974-84	1985-95	1996-06	1974-06
Total return on general investments ¹	10.4%	12.7%	15.0%	13.5%
Average per unit income distributed as a percent of unit value	(5.1)	(4.1)	(4.2)	(4.5)
Total return reinvested	5.3	8.6	10.8	9.0
Capital additions	3.3	1.5	1.9	2.2
Total growth in endowment	8.6	10.1	12.7	11.2
Inflation rate	(7.8)	(3.5)	(2.6)	(4.5)
REAL ENDOWMENT GROWTH	0.8%	6.6%	10.1%	6.7%

¹ Net of all expenses and fees, and including the impact of revenue-sharing agreements with certain fund managers.

PERFORMANCE OVERVIEW

Harvard Management Company (HMC) is responsible for managing the investments that comprise the endowment. The unaudited Annual Report of the Harvard Management Company, beginning on page 21, discusses HMC's investment philosophy and analyzes the endowment's fiscal 2006 performance.

In fiscal 2006, the endowment's total return, calculated on a time-weighted basis, net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers, was 16.7% versus 19.2% in fiscal 2005. The market value of the endowment increased from \$25.9 billion as of June 30, 2005 to \$29.2 billion as of June 30, 2006, exceeding annual performance benchmarks by almost 4%. The change in market value includes all endowment activity: investment appreciation and depreciation; funds distributed to the Schools and departments for operations; new gifts; changes in pledges and interests in trusts held

by others; departmental additions to the endowment from unrestricted fund and gift balances; and the use of endowment appreciation for specific purposes approved by the Corporation. The University's endowment spending policy strives to sustain the purchasing power of the endowment while providing a reliable stream of income for operations. Accordingly, the University aims to distribute between 4.5% and 5.0% of the endowment's market value annually. In fiscal 2006, endowment distributions resulted in a spending rate of 4.3%, slightly below the targeted range.

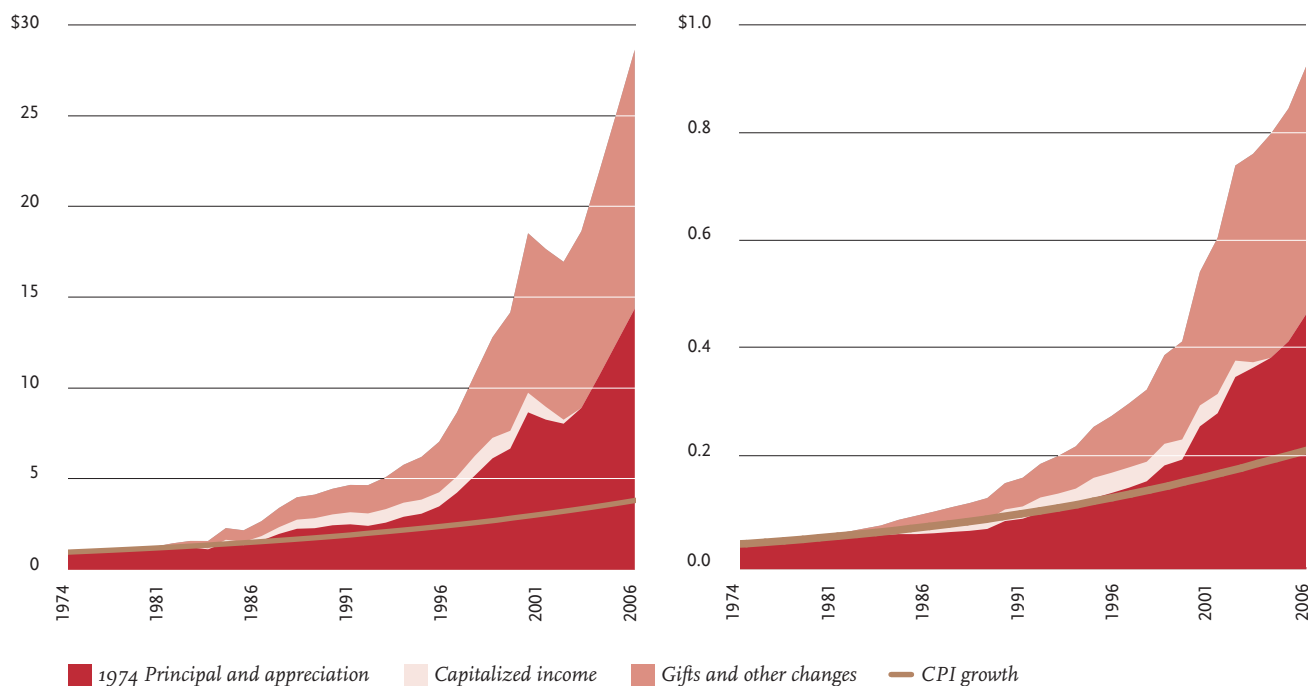
Generating almost one-third of the University's operating income, the endowment provides a solid financial foundation for the University's mission and strategic priorities. Continued investment acumen as well as donor support will be essential to ensure the endowment's strength in the years to come.

ENDOWMENT GROWTH*

In billions of dollars

ENDOWMENT INCOME DISTRIBUTED

In billions of dollars



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

Review of Capital Activities

In fiscal 2006, the University was engaged in 360 capital projects to expand and improve its physical plant. The University's property assets include 23.8 million square feet of space in more than 600 buildings and over 200 acres of land with significant capacity for long-term development.

APPROACH TO CAPITAL ISSUES

The University utilizes a comprehensive planning strategy to assess current and future space needs while considering the impact of growth on the neighboring communities. Within this strategy, the University intensified its development efforts in Allston and also advanced its construction and renovation projects across the University during fiscal 2006.

The process for planning and development of the University's property holdings in Allston continued throughout fiscal 2006, and several key milestones were achieved. In February 2006, the University announced the selection of an architectural firm for a state-of-the-art science building. The 500,000-square-foot complex will house the Harvard Stem Cell Institute and a number of other cross-departmental science initiatives.

The University also announced the creation of its first visual arts center in Allston, which will provide teaching and research facilities, a study center, conservation laboratories, and gallery space for students and the public. This project marks the first step in establishing a vital University art and cultural presence in Allston. The University Art Museums will occupy the new facility during their renovations and beyond, until a more permanent art and cultural presence is established in Allston.

Christopher M. Gordon was named Chief Operating Officer of the University's newly formed Allston Development Group (ADG), which has been established to manage all aspects of the Allston Initiative. He will oversee master planning, project planning and approvals, urban and building design, and, ultimately, construction in Allston. Advising the ADG will be several important stakeholder groups,

including a Mayor-appointed community task force, a University advisory group, and an alumni group combining individuals with practical real estate experience and other dedicated alumni with a particular interest in the future of the University's presence in Allston.

The University continues to work closely with the Allston community in its planning and development efforts. As part of these efforts, the University granted the Allston-Brighton Community Development Corporation \$2.8 million in fiscal 2004 for development of an affordable housing project. In fiscal 2006, this project was completed, and fifty new units of affordable housing became available in the Allston-Brighton community.

Strategic developments and planning also occurred in Cambridge during fiscal 2006. Harvard Law School (HLS) moved ahead with the design and construction authorization phase of the Northwest Corner development, a major student-focused building project. The building will include new classrooms and function spaces, as well as offices for student services, student organizations, and the HLS clinical programs. The project will also include a four-level underground garage, which will allow the University to remove surface parking in the North Campus.

A partnership between the University and the City of Cambridge will bring a series of improvements to Harvard Square over the next 18 months. The project's objective is to preserve and enhance Harvard Square as a unique historic place through space planning, streetscape improvements, and pedestrian-friendly features. The initial phase of the comprehensive physical project, which began in the spring of 2006, will improve the storm water

system, roads, sidewalks, plazas, and lighting. The University is contributing \$1.3 million to the project.

The University also made progress towards its goal of providing housing to 50% of its graduate students. Early in fiscal 2007, the University finalized the acquisition of the “Harvard at Trilogy” project. This complex, which is part of a larger mixed-use development, contains 171 apartments, including 17 affordable units, and is located at 170 Brookline Avenue in the Fenway area of Boston. Additionally, the University began construction of more than 300 new units of primarily graduate student housing in the Riverside area of Cambridge. These units will be spread across nine wood-frame townhouses and two larger complexes. As part of these Cambridge projects, the University is developing 33 units of affordable housing and creating nearly three quarters of an acre of new public open space in the Riverside area.

During fiscal 2006, the Green Campus Loan Fund (GCLF) provided \$2.1 million of interest-free funding for 31 projects. GCLF finances projects that reduce the University’s environmental impact. Departments repay the fund using savings resulting from project-related reductions in utility consumption, waste removal, or operating costs. Since the program’s inception in fiscal 2002, GCLF has supported such projects as lighting control upgrades; heating, ventilation, and air conditioning improvements; and computer energy use reduction. In April 2006, the University announced that the available GCLF funds would be doubled to \$12 million, demonstrating the University’s commitment to both prudent spending and environmental sustainability.

THE PHYSICAL PLANT

The University’s property holdings comprised 23.8 million square feet of space at the end of fiscal 2006. Student housing occupied 6.7 million square feet; offices and classrooms, 5.0 million square feet; laboratories, 4.5 million square feet; libraries, 1.6 million square feet; and other facilities including athletic, health care, and administrative facilities, as well as museums and commercial space, 6.0 million square feet.

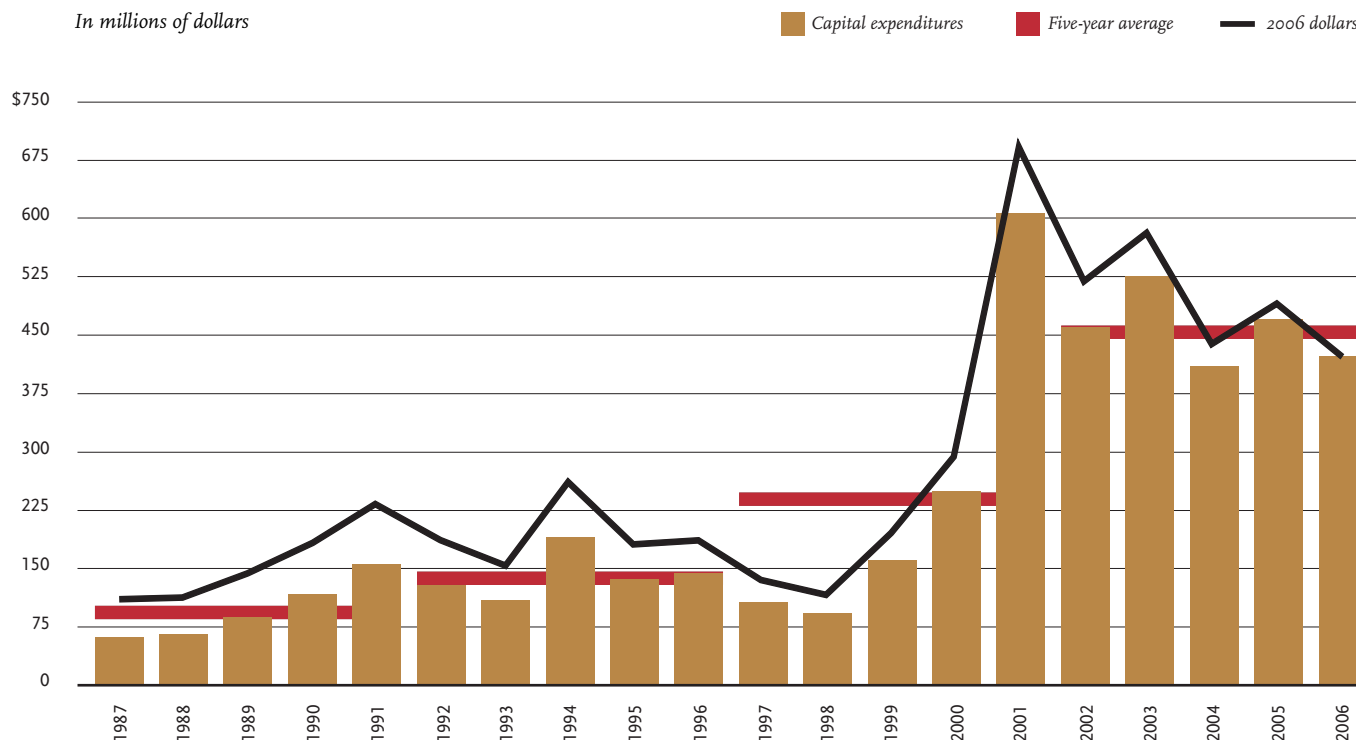
The University invested \$422.5 million in 360 active capital projects and acquisitions in fiscal 2006, compared with \$469.9 million and 329 active projects and acquisitions in fiscal 2005. Investments in both new construction and renovations included: 57% for laboratories, classrooms, and offices; 13% for libraries, museums, and assembly

spaces; 10% for housing; and 20% for athletic and other facilities. Strategic acquisitions in Allston also added to the University’s plant.

Capital projects were funded by \$46.8 million of unrestricted balances, \$18.1 million of gifts, and \$5.6 million of endowment, with the remaining amount financed by debt. For more than 20 years, the University has employed a strategy of financing capital projects with bonds. This strategy has enabled new construction as well as renewal and improvement of existing facilities, while allowing payments for the projects to occur over time. The University’s outstanding debt totaled \$2.9 billion at the end of fiscal 2006, a 3% increase over the prior year balance.

ANNUAL FACILITY EXPENDITURES

In millions of dollars



NEW CONSTRUCTION AND ACQUISITIONS

New construction and acquisitions accounted for 49% of the University's capital expenditures during fiscal 2006. The University purchased five properties in Allston to add to its existing holdings.

Significant progress was made on two Faculty of Arts and Sciences (FAS) construction projects in the area north of the main campus: the 510,000-square-foot Northwest Science Building and the 137,000-square-foot Laboratory for Integrated Science and Engineering (LISE). The Northwest Science Building will house the Center for Brain Science and the Systems Biology group of the Molecular and Cellular Biology Department, as well as other multidisciplinary scientific efforts. The building will include offices, teaching facilities, research laboratories, collections storage, and research support space. A chilled-water plant and an electrical substation are under construction adjacent to the Northwest Science Building. The LISE facility will enable interaction among faculty and students in the areas of physics, chemistry, biology, engineering, and materials science. LISE will also include laboratory

and office space for the Center for Nanoscale Systems, as well as clean-room and vibration-free underground research space for work in materials science and nanotechnology.

Construction was completed at the FAS Biological Research Infrastructure (BRI) building in the summer of 2006. The BRI is a two-level, underground multi-scientist support facility located below the courtyard of and accessible through the Biological Laboratories (the Bio Labs). The BRI contains approximately 75,000 square feet of state-of-the-art laboratory space and expands and replaces existing facilities in the Bio Labs. Following the completion of construction, the Bio Labs courtyard was restored as an open green space with pedestrian pathways, a volleyball court, and outdoor teaching space. In addition to new scientific facilities, construction of the FAS Center for Government and International Studies (CGIS) was completed early in fiscal 2006, providing 258,800 square feet of teaching, office, and support space for the Government Department and international centers.

At the Dumbarton Oaks complex in Washington, D.C., several major milestones were achieved in their capital program. During the summer of 2005, the new 52,000-square-foot library building was completed. Transformation of the former Director's residence into a Refectory and renovation of the Cottage were also completed in August 2006. Renovations commenced at the Main House in September 2005. As of the end of fiscal 2006, the Dumbarton Oaks multi-year capital construction and renewal program was approximately 75% complete.

In May 2006, the Harvard University Library (HUL) inaugurated operations at its new

multi-service facility at 90 Mount Auburn Street, constructed, owned, and operated by Harvard Real Estate Services. For the first time, HUL's Office for Information Systems, the Weissman Preservation Center, including its rare book and manuscript collections conservation laboratory, and the global Open Collections Program, as well as Cambridge-based personnel for the Harvard Depository are operating in the same building. As one of the University's newest environmental buildings, it is expected to receive certification from the U.S. Green Building Council because of its geothermal systems and commitment to renewable energy sources.

RENOVATION AND RENEWAL

With a physical plant whose history spans nearly four centuries, the University is committed to renovation and renewal as means of preserving its property assets and creatively adapting space to meet evolving needs. Investment in the existing physical plant represented 51% of total capital expenditures in fiscal 2006.

As discussed in the fiscal 2005 annual financial report, renovations completed towards the beginning of fiscal 2006 included: repairs and improvements at Memorial Church; renovations to Harvard Business School's (HBS) Baker Library and Aldrich Hall; transformation of the HLS Harkness Commons and Hemenway Gymnasium; significant renovations at Widener Library; and improvements across a range of FAS buildings, including the Quadrangle Recreational Athletic Center (QRAC) and its state-of-the-art dance studio, Sever Hall, the Dunster and Mather dining halls, as well as preliminary renovations at the Loker Commons and the Hilles Building.

The W.E.B. Du Bois Institute completed renovations at 104 Mount Auburn Street in September 2005, uniting all of the Institute's research projects in one building. The Institute is heralded as the largest physical space for African-American research in the world.

Major renovations to Loeb House were completed in March 2006, striving to preserve and modernize the building in a manner appropriate for its use by the Office of the Governing Boards.

University Operations Services completed an office renovation project and consolidated operations at the Blackstone location in May 2006. A second Blackstone project will replace the 1930-vintage steam plant boiler and associated support equipment to ensure reliable, efficient, and environmentally responsible steam production to support campus power demands.

The Radcliffe Institute for Advanced Study completed renovations at the Radcliffe Gym in June 2006. The Gym has been converted into a spacious lecture hall for fellows' presentations and other events, as well as smaller meeting rooms and office space for Institute staff. This project represents the second phase of the Radcliffe capital plan and is an important step in co-locating central meeting spaces and the core of the fellowship intellectual activities, as well as the overall consolidation of Institute staff, fellows, and programs into Radcliffe Yard.

Renovations continued at HBS's Hamilton Hall, converting the existing space to 72 single rooms with private baths, several small kitchenettes, and group study rooms.

At the Law School, renovations were completed at 23 Everett Street in June 2006, the initial phase of a comprehensive plan to address the School's long-term space needs. The purpose of the project was threefold: addressing long-standing maintenance needs in the existing wood-frame house, making the building accessible for persons with disabilities, and providing additional office space for HLS's programs. The renovations maintained the appearance of the existing structure while accommodating a substantial addition.

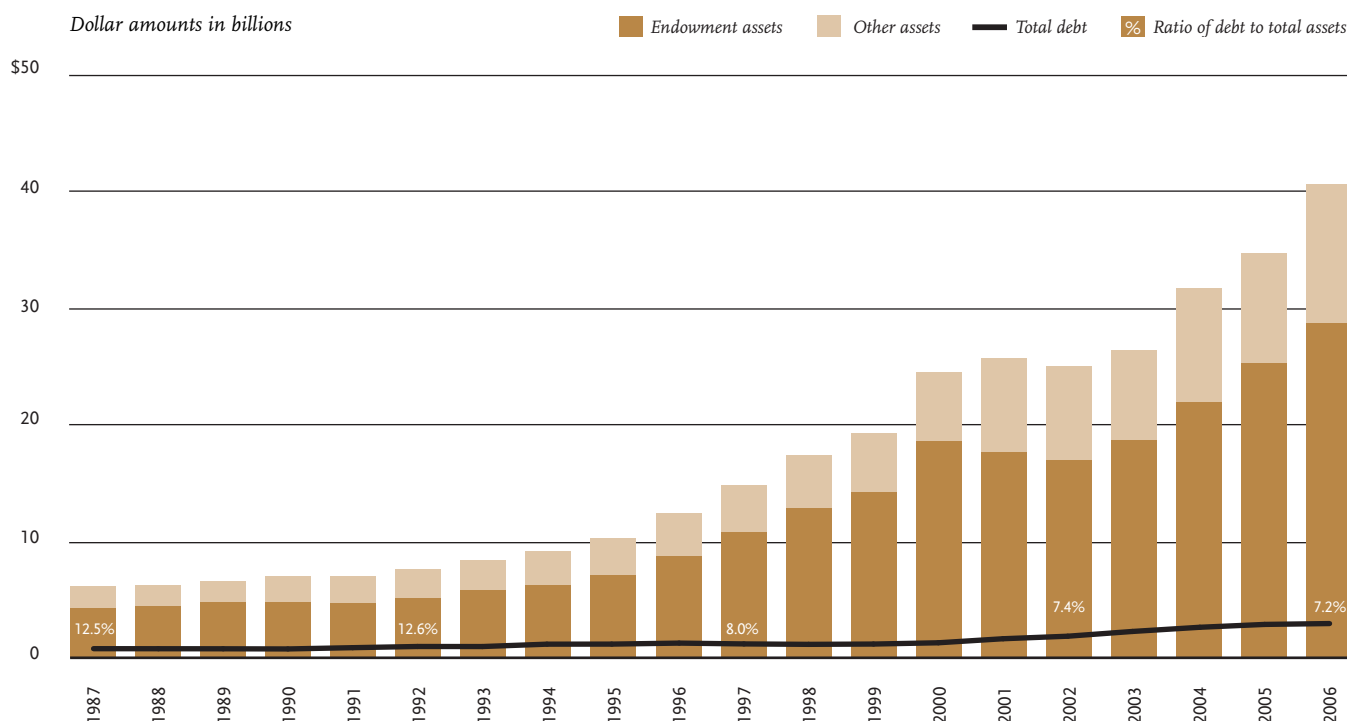
In fiscal 2006, FAS and Harvard College developed a plan to ensure that more space would be devoted to recreational, social, and study areas for undergraduates. The initiative, which is being jointly funded by the Office of the President and FAS, calls for the creation of student activity spaces at the Hilles Building, the Loker Commons, and some Yard basements, as well as the creation of a café in

Lamont Library. The Hilles Building project provides approximately 50,000 square feet of space for student groups' use for office, recreational, and social activities. All of these renovations began late in fiscal 2006; the Yard basement project was completed in October 2006. Harvard College facilities slated for renovation during the coming year include the Malkin Athletic Center and various capital renewal projects in the Houses.

Renovation of the New College Theater began early in fiscal 2006. This 31,400-square-foot project will create a high-quality 270-seat theater for undergraduates with improved support space, rehearsal rooms, and student offices. The renovation will enable students to stage public performances and learn theater craft in a contemporary facility, while also helping to satisfy the high demand for student performance space.

COMPARISON OF DEBT TO TOTAL ASSETS*

Dollar amounts in billions



* Assets are net of pledges, interests in trusts held by others, and securities pledged to counterparties.

Annual Report of the Harvard Management Company

Harvard Management Company (HMC) is a wholly owned subsidiary of Harvard University that is governed by a Board of Directors (the Board) appointed by the President and Fellows of Harvard College (the Corporation). Established in 1974, HMC is charged with management of the University's endowment, pension assets, working capital, and deferred-giving balances. As of June 30, 2006, HMC managed a total of \$35.3 billion, \$33.5 billion of which consisted of the General Investment Account (GIA). The GIA is a pooled fund consisting primarily of \$29.2 billion of endowment assets. The information presented in this unaudited report relates to the GIA.

PERFORMANCE OF THE GENERAL INVESTMENT ACCOUNT

The GIA experienced another solid year of performance in fiscal 2006. Accordingly, HMC was able to meet its objective of preserving and enhancing the real value of the GIA after taking into account distributions to support the University's mission of excellence in teaching and research. HMC also outperformed its "Policy Portfolio," the long-term asset mix deemed likely to meet the University's return goals given the appropriate risk specification.

The total investment return amounted to 16.7%, calculated on a time-weighted basis, net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers. After including gifts, distributions, and other changes, the total value of the GIA increased from \$29.4 billion as of June 30, 2005 to \$33.5 billion as of June 30, 2006. The endowment, the largest component of the GIA, grew from \$25.9 billion to \$29.2 billion.

The GIA outperformed the major U.S.-based indices including the S&P 500 (which returned 8.6% for the fiscal year) and the Lehman Aggregate (a broad index of the bond market that returned (0.8)% for

the fiscal year). Increased internationalization in the context of a broadly diversified asset allocation was a positive factor. As shown on the following page, significant contributors to performance included international equities, which outpaced U.S. equity markets on the back of changing perceptions of growth and value differentials; commodities, where international prices surged in response to higher demand and concerns about potential supply disruptions; and less liquid asset classes, which continued to benefit globally from higher allocations of capital. In contrast, fixed-income exposures detracted from absolute performance, as average global yields rose in response to indications of continued monetary policy tightening by major central banks including the Federal Reserve, the European Central Bank, and the Bank of Japan.

Notwithstanding some of the challenges associated with the current transition phase (discussed later in this report), HMC's efforts at adding value continue to draw successfully on both internal and external expertise. As a result, HMC outperformed at the individual asset class level in nine out of the eleven categories. The efforts at securing value added involve exploiting "bottom-up" opportunities (i.e., opportunities within each asset class), as well as appropriately positioning the endowment against the Policy Portfolio (i.e., allocating across asset classes). In the process, HMC assesses global economic and financial developments, absolute and relative valuations, and the evolution of market technicals.

Reflecting these efforts, the total investment return on the GIA outperformed the Policy Portfolio by 3.7% (16.7% versus 13.0%) in fiscal 2006. This outperformance, which translates to approximately \$1.0 billion of additional value for the GIA, was driven by solid results delivered by both internal and external portfolio managers. The value added by individual asset class is outlined in the table below.

There are two important aspects to how performance is measured: the increase in the overall value of the GIA (an absolute return target) and the extent to which HMC added value that is distinct from that associated with the Policy Portfolio (a relative return target). There is also a third aspect that relates to how well HMC performed relative to similar institutions.

Historically, HMC has assessed peer performance in terms of two measures—a broad metric that encompasses large institutional funds and a narrower metric covering other university endowments. Compared to the average institutional fund, the endowment outperformed by 5.9% the total return of 10.8% achieved by the median of 140 institutional funds with assets of over \$1.0 billion (as measured by the Trust Universe Comparison Service, or TUCS). When compared to the 25 largest university endowments, the University's endowment also outperformed the estimated median.

FISCAL 2006 PERFORMANCE

	HMC ¹	Benchmark ²
Equities:		
Domestic equities	11.3%	9.6%
Emerging markets equities	37.8	36.2
Developed foreign equities	26.5	27.2
Private equities	22.7	24.3
Fixed-income:		
Domestic bonds	(2.3)	(4.9)
Foreign bonds	2.6	(0.2)
High-yield bonds	7.9	4.6
Real assets:		
Commodities	26.7	14.5
Inflation-indexed bonds	(3.1)	(3.2)
Real estate	22.7	16.8
Absolute return and special situations	15.0	11.9
TOTAL	16.7%	13.0%³
MEDIAN FUND		10.8%⁴

¹ Investment returns are net of all fees and expenses, and include the impact of revenue-sharing agreements with certain fund managers.

² Performance of benchmark for each asset class of the Policy Portfolio.

³ Policy Portfolio total return.

⁴ Large fund median performance as measured by the Trust Universe Comparison Service (TUCS).

THE HISTORICAL CONTEXT

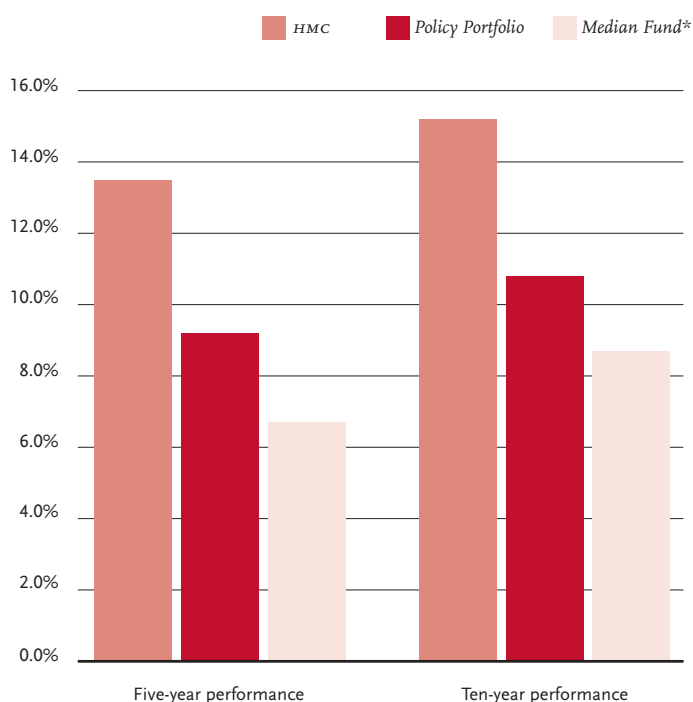
The annualized five- and ten-year performance numbers for the GIA, after incorporating the fiscal 2006 results, are summarized in the chart below. Three historical factors are worth noting:

- First, by significantly outperforming the University's long-term real return target over time, the endowment has taken advantage of the recent period of generally favorable global market conditions to build an important margin for the future, should global financial conditions revert to the mean;
- Second, by having access to a mix of both internal and external investment management capabilities, the long-term outperformance margin relative to the Policy Portfolio is solidly ahead of the 1.0% level that has historically been deemed a realistic long-term objective; and

- Third, relative to the long-term average for institutional funds, the endowment has maintained an outperformance margin that continues to exceed the target of 1.5%.

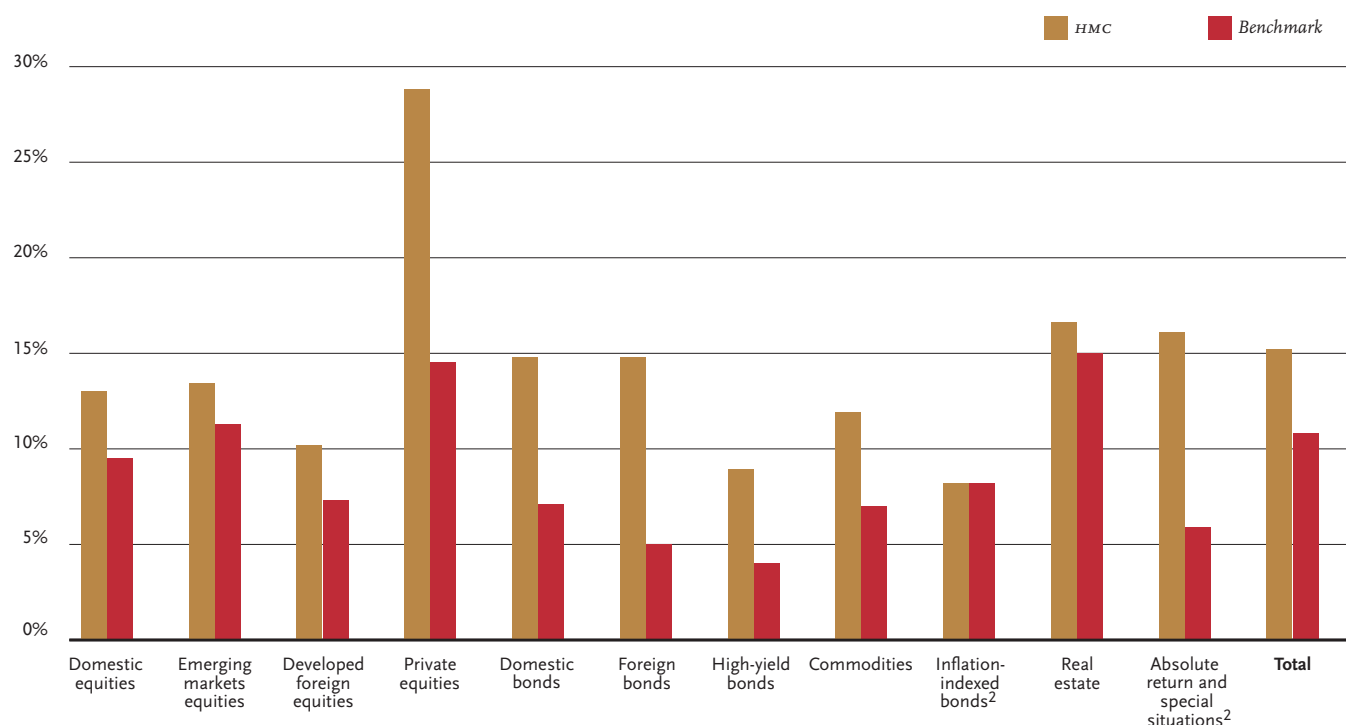
Similar to what occurred in fiscal 2006, the historical outperformance of the GIA has been accompanied by consistently solid results at the individual asset class level. As detailed on the following page, historical performance has been strong across the range of asset classes, both in absolute terms and when compared to the components of the Policy Portfolio.

FIVE- AND TEN-YEAR ANNUALIZED AVERAGE RETURNS



* As measured by the median of 140 institutional funds with assets of over \$1.0 billion, based on information compiled by the Trust Universe Comparison Service (TUCS).

ANNUALIZED TEN-YEAR PERFORMANCE BY ASSET CLASS¹



¹ Returns are calculated on a time-weighted basis with the exception of private equities, real estate, and commodities, which are calculated on a dollar-weighted basis. Individual benchmarks are representative of each asset class and are approved by the Board.

² Absolute return funds and inflation-indexed bonds have been held for less than ten years. For these asset classes, the HMC return and the benchmark reflect annualized performance of 7.75 years and 7.00 years, respectively.

INVESTMENT MANAGEMENT PHILOSOPHY AND PROCESS

Fiscal 2006 investment returns were achieved through an investment philosophy and approach that has served the GIA well over the years. HMC's approach to investment management has continued to be anchored by a disciplined approach to asset allocation that draws lessons from experience and monitors changing global economic and financial conditions.

Over recent years, the GIA has benefited from two notable characteristics that are institutionalized in the design and implementation of HMC's asset allocation: exposure to a broadly diversified and dynamic set of investment opportunities, and the increasing internationalization of the portfolio. These two characteristics have allowed the GIA to navigate well through short bouts of global economic and market fluidity while also benefiting from trends of globalization that have been evident across a wide range of indicators.

The breakdown of the GIA by asset category as of June 30, 2006 and 2005, respectively, was (in millions of dollars):

	2006	2005
Equities:		
Domestic equities	\$ 5,730	\$ 5,332
Emerging markets equities	2,722	1,782
Developed foreign equities	5,189	3,848
Private equities	2,968	2,358
Total equities	16,609	13,320
Fixed-income:		
Domestic bonds	3,299	2,411
Foreign bonds	1,276	1,192
High-yield bonds	1,724	1,831
Total fixed-income	6,299	5,434
Real assets:		
Commodities	2,887	3,675
Inflation-indexed bonds	1,535	1,589
Real estate	2,518	1,940
Total real assets	6,940	7,204
Absolute return and special situations	4,917	3,837
Cash	(1,293)	(417)
TOTAL	\$33,472	\$ 29,378

While longer-term asset allocation decisions have been important contributors to the overall performance of the GIA, a sustained effort has also been made to add value through daily active investment management decisions. This process has many components, relying on both internal and external expertise.

In terms of execution, HMC's hybrid model (i.e., an approach to investment management that uses both internal and external portfolio and trading expertise, a relatively rare occurrence in the endowment and foundation universe) has been critical to HMC's ability to maintain its tradition of excellence.

External expertise enables HMC to pursue investment opportunities that require a level of specialization that cannot be replicated internally in an effective and cost-efficient manner. For other activities, HMC's internal management capabilities have consistently added value to the GIA, and have done so in a cost-effective manner (i.e., at a lower basis-point cost than incurred for activities undertaken by external managers), in a more transparent fashion with respect to daily risk management data (as discussed below), and in a manner consistent with the University's structural attributes (e.g., a AAA credit rating and a long-term investment horizon).

RISK MANAGEMENT

Appropriate controls and procedures are integral to mitigating risks and effectively managing the GIA. Accordingly, HMC maintains an approach aimed at monitoring and managing the factors pertaining to credit, liquidity, market, and operational risks. Since no single indicator can reasonably be expected to capture the host of risk factors that affect the GIA, HMC utilizes a matrix approach that is subject to regular reviews by both the Board and management of HMC.

HMC has designed and implemented an approach to identify and quantify the main risks facing the GIA. This approach includes monitoring and risk management strategies underpinned by a clearly defined set of procedures pertaining to risk limits, oversight, and accountability. By necessity, this has been a dynamic process that has taken into account general market developments, the proliferation of new instruments, and the changing nature of linkages across asset classes. This process is supported by

FOUR COMPONENTS OF RISK

MARKET RISK is defined as the sensitivity of income and capital to variations in interest rates, foreign exchange rates, equity prices, commodity prices, and other market-driven rates and prices. Market risk also considers the correlation risk among investments and the liquidity of the underlying positions. Market risk is measured as the potential gain or loss resulting from a price change at a given probability over a specific time period; this is also described as value at risk

(VAR). Value at risk is monitored and reviewed frequently by the Board and senior management to ensure that exposures are consistent with approved limits and guidelines. Stress tests are also conducted to determine how potential changes in market conditions could impact the market value of the portfolio.

CREDIT RISK is defined as the risk of loss arising from a counterparty's failure or inability to meet payment or performance terms of a contract.

HMC manages credit risk by establishing strict credit policies, setting concentration limits and approval procedures, and monitoring exposure continuously. HMC enters into arrangements with counterparties believed to be creditworthy and requires collateral to the maximum extent possible. Limits are established for each counterparty based on its creditworthiness.

consistent efforts to ensure that HMC has the required information inputs and management system, the appropriate analytical tools, and a robust set of checks and balances.

The effectiveness of HMC's risk management is highly dependent on the quality of the data inputs, particularly in terms of completeness and timeliness. In this context, and as HMC deepens and widens its relationships with external managers, an effort is being made to counter the existing market tendency towards a lower level of information transparency.

To better ascertain exposure, HMC has expanded its set of risk measurements (standard value at risk (VAR), leverage, historic, and scenario analyses) to include a set of additional hypothetical scenarios that assess the ability of the endowment to navigate significant disruptive financial environments. The risk management team has also been

devoting considerable attention to designing and implementing specific guidelines for new internal portfolio managers. In addition, this team is an integral part of HMC's effort to better model and monitor the exposure of the growing population of external managers.

Finally, and in recognition of the increasingly fluid nature of the global economy, HMC has devoted more time to the identification, scaling, and pricing of market-based "fat tail" insurance. This "out of the money" insurance is explored in various market segments, taking into account factors such as the level of premiums, liquidity, and simulated behavior under different assumptions regarding the state of global financial markets.

FOUR COMPONENTS OF RISK, CONTINUED

LIQUIDITY RISK considers the risk of loss arising from the inability to meet funding commitments. The objective of liquidity risk management is to ensure the ability to meet the endowment's financial obligations. Effective management of liquidity risk requires the ability to project and understand all cash flows and potential future commitments. It also involves the identification and prioritization of sources of liquidity. Cash is managed actively by a centralized staff responsible for

understanding funding requirements and evaluating sources of liquidity. Liquidity measures are employed to ensure that the University maintains adequate liquidity and is prepared for periods of stress.

OPERATIONAL RISK is the risk of loss resulting from inadequate or failed internal processes or systems, errors by employees, or external events. The management of these risks is primarily the responsibility of the business line managers in each

functional area. HMC manages operational risk by identifying areas of risk, monitoring compliance, promoting best practices, and implementing internal controls and robust systems. The results of these activities are reviewed frequently by senior management.

SALIENT ORGANIZATIONAL DEVELOPMENTS

This past fiscal year saw some important organizational changes. As discussed in last year's report, HMC has been in the midst of an important period of transition triggered by the significant turnover in staff resulting from the departure of Jack Meyer (the previous President and CEO), the fixed-income portfolio management groups, and colleagues in operations, risk management, and technology. In response to these changes, management and the Board are now focused on establishing an organization that will enable the endowment to maintain and enhance its tradition of superior long-term performance.

Concluding the search process initiated in January 2005, the Corporation approved my appointment to replace Jack Meyer in October 2005. I assumed the HMC Presidency in mid-February 2006, taking over from Peter Nadosy, who served as Interim Chief Investment Officer. The HMC man-

agement team has now embarked on a phased program of rebuilding and reinventing the institution. The program is focused on putting in place the people and processes essential to delivering superior endowment returns over the long term. New hires have been and continue to be made with the goal of enhancing both internal and external management capabilities. HMC has also reinforced its culture of compliance by creating and filling the position of Chief Compliance Officer.

The Corporation also approved a set of recommendations aimed at further strengthening HMC's Board governance. These include the introduction of specific and initially staggered terms for non-ex-officio Board members, enhancement of the workings of Board committees, including oversight functions, and the deepening of a holistic evaluation approach for HMC management's performance.

THE ROAD AHEAD

Since late in fiscal 2006, HMC has taken a two-pronged approach to asset allocation. First, as has periodically been the case, the composition of the Policy Portfolio has been slightly altered for fiscal 2007, consistent with an updated analysis of the risk/return prospects for individual asset classes and their likely correlations.

Second, HMC has launched a longer-term analytical initiative that explores the extent to which HMC's methodology is being impacted by secular changes influencing the investment universe, particularly the stability of asset class distinctions and the correlations among them. This initiative is initially focused on the balance of global synchronization and decoupling forces, and the impact of the continued proliferation of financial instruments and innovation that are encouraging greater securitization and risk tranching. HMC has been fortunate in this work to be able to draw on wonderful talent within the University community as well as beyond.

After additional analysis and detailed discussion with the Board, this work may be reflected in adjustments to HMC's asset allocation and investment management methodologies in the coming years.

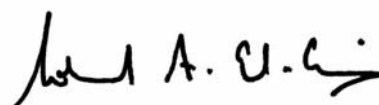
Like other investment management institutions, HMC is facing an exciting and challenging investment environment, in addition to its own institutional challenges. On the one hand, new investment opportunities are arising as a result of the current phase of the globalization process, the associated gradual realignment of economic conditions around the world, and market innovations. On the other hand, global payment imbalances are large and growing, valuations are stretched in several market segments, correlations among asset classes have been rising, increased competition is reordering traditional sources of value-added performance, and non-economic risks seem to be increasing.

HISTORICAL EVOLUTION OF THE POLICY PORTFOLIO

	1980	1984	1988	1991	1995	1996	1997	1998	1999	2000	2002	2006	2007
Developed market equities	66%	47%	46%	58%	53%	51%	51%	47%	39%	37%	25%	25%	23%
<i>Domestic equities included above</i>	66	47	46	40	38	36	36	32	24	22	15	15	12
Emerging markets equities					5	9	9	9	9	9	5	5	8
Private equities		7	12	12	12	15	15	15	12	15	13	13	13
Real assets		3	5	13	13	10	12	12	17	20	29	29	31
Fixed-income	35	22	31	22	22	20	18	18	17	17	21	21	13
Absolute return and special situations								4	6	5	12	12	17
Cash	(1)	21	6	(5)	(5)	(5)	(5)	(5)		(3)	(5)	(5)	(5)
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

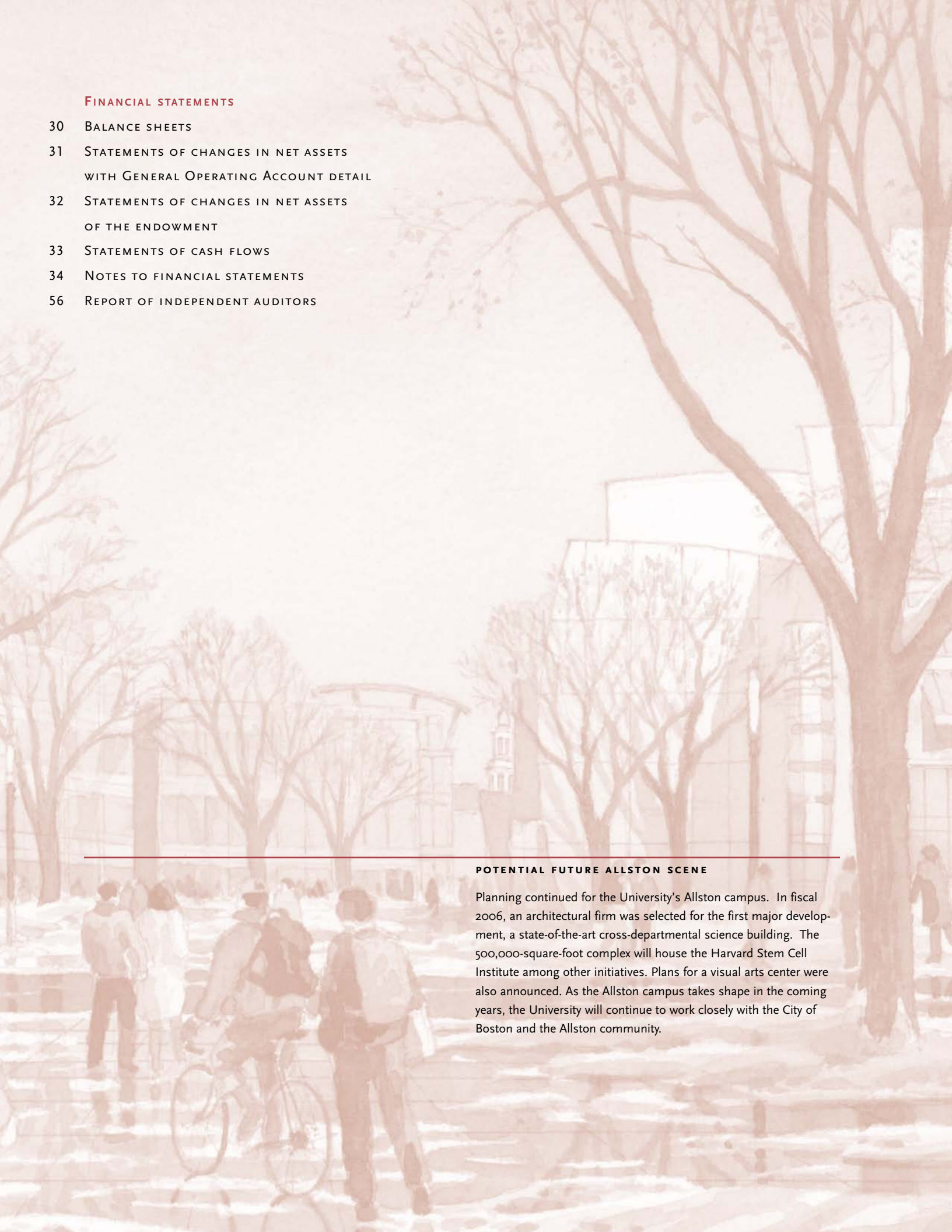
These considerations are paramount as HMC aims to continue to meet its mission of delivering superior investment returns in what is likely to be a less hospitable investment environment. Indeed, by necessity, a key task facing HMC is to position itself to navigate an increasingly fluid and significantly more challenging economic and financial outlook. The robustness of HMC's investment approach, the design and implementation of its return-generating engines, and the responsiveness of its risk management systems are all important elements. Throughout this process, HMC is firmly anchored by the clarity of its institutional mission, the longer-term nature of

the investment horizon, the strength of the University's balance sheet, and access to a large community of talented people and their ideas.



Mohamed A. El-Erian
PRESIDENT AND CEO
HARVARD MANAGEMENT COMPANY

October 6, 2006

The background of the page is a monochromatic, reddish-orange illustration of a campus scene. It features several large, leafless trees in the foreground and middle ground. In the background, there are various buildings, including a prominent one with a clock tower. In the lower-left foreground, a group of people is walking away from the viewer, and a person is riding a bicycle. The overall style is that of a fine-line drawing or sketch.

FINANCIAL STATEMENTS

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POTENTIAL FUTURE ALLSTON SCENE

Planning continued for the University's Allston campus. In fiscal 2006, an architectural firm was selected for the first major development, a state-of-the-art cross-departmental science building. The 500,000-square-foot complex will house the Harvard Stem Cell Institute among other initiatives. Plans for a visual arts center were also announced. As the Allston campus takes shape in the coming years, the University will continue to work closely with the City of Boston and the Allston community.

Balance Sheets

with summarized financial information as of June 30, 2005

<i>In thousands of dollars</i>	June 30	
	2006	2005
ASSETS:		
Cash	\$ 43,594	\$ 34,450
Receivables, net (<i>Note 4</i>)	222,793	171,616
Prepayments and deferred charges	82,698	77,810
Notes receivable, net (<i>Note 5</i>)	286,297	269,544
Pledges receivable, net (<i>Note 6</i>)	540,623	644,843
Fixed assets, net (<i>Note 7</i>)	4,078,536	3,797,838
Interests in trusts held by others (<i>Notes 8 and 12</i>)	320,990	251,917
Investment portfolio, at market (<i>Note 3</i>)	35,860,744	30,333,945
Market value of securities pledged to counterparties (<i>Note 3</i>)	2,905,867	19,947,959
TOTAL ASSETS	44,342,142	55,529,922
LIABILITIES:		
Accounts payable	327,697	401,049
Deposits and other liabilities (<i>Note 7</i>)	409,775	356,256
Securities lending and other liabilities associated with the investment portfolio (<i>Note 3</i>)	4,516,981	20,343,700
Liabilities due under split interest agreements (<i>Note 9</i>)	693,383	568,112
Bonds and notes payable (<i>Note 10</i>)	2,922,247	2,849,129
Pension and other accrued retirement obligations (<i>Note 11</i>)	476,600	396,399
Government loan advances (<i>Note 5</i>)	56,960	56,856
TOTAL LIABILITIES	9,403,643	24,971,501
NET ASSETS	\$ 34,938,499	\$ 30,558,421

	Unrestricted	Temporarily restricted	Permanently restricted	June 30	
				2006	2005
NET ASSETS:					
General Operating Account (<i>Note 12</i>)	\$ 3,879,438	\$ 1,152,380	\$ 84,254	\$ 5,116,072	\$ 4,197,594
Endowment (<i>Note 8</i>)	4,708,330	20,397,269	4,113,831	29,219,430	25,853,048
Split interest agreements (<i>Note 9</i>)		187,638	415,359	602,997	507,779
TOTAL NET ASSETS	\$ 8,587,768	\$ 21,737,287	\$ 4,613,444	\$ 34,938,499	\$ 30,558,421

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

Statements of Changes in Net Assets with General Operating Account Detail

with summarized financial information for the year ended June 30, 2005

with summarized financial information for the year ended June 30, 2005				For the year ended	
		Temporarily	Permanently	June 30	
<i>In thousands of dollars</i>	Unrestricted	restricted	restricted	2006	2005
REVENUE:					
Student income:					
Undergraduate program	\$ 212,473			\$ 212,473	\$ 200,047
Graduate programs	323,157			323,157	307,695
Board and lodging	116,485			116,485	112,609
Continuing education and executive programs	169,963			169,963	155,113
Scholarships applied to student income <i>(Note 13)</i>	(205,957)			(205,957)	(189,000)
Total student income	616,121	0	0	616,121	586,464
Sponsored research support <i>(Notes 14 and 15)</i> :					
Federal government—direct costs	378,466			378,466	367,600
Federal government—indirect costs	139,526			139,526	143,457
Non-federal sponsors—direct costs	29,758	\$ 75,184		104,942	103,232
Non-federal sponsors—indirect costs	6,021	5,275		11,296	12,151
Total sponsored research support	553,771	80,459	0	634,230	626,440
Gifts for current use <i>(Note 15)</i>					
	76,626	125,320		201,946	187,772
Investment income:					
Endowment income distributed for operations <i>(Note 8)</i>	151,702	781,635		933,337	854,757
Income on working capital investments distributed for operations	136,872	17,137		154,009	123,577
Interest received on student, faculty, and staff loans	6,075			6,075	6,232
Total investment income	294,649	798,772	0	1,093,421	984,566
Other operating income <i>(Note 16)</i>					
	453,865			453,865	415,694
Net assets released from restrictions <i>(Note 2)</i>	951,733	(951,733)		0	0
TOTAL REVENUE	2,946,765	52,818	0	2,999,583	2,800,936
EXPENSES:					
Salaries and wages	1,126,322			1,126,322	1,093,179
Employee benefits <i>(Note 11)</i>	350,575			350,575	313,844
Scholarships and other student awards <i>(Note 13)</i>	99,574			99,574	94,116
Supplies and equipment	206,782			206,782	206,660
Space and occupancy	342,332			342,332	296,125
Depreciation <i>(Note 7)</i>	210,964			210,964	196,563
Other expenses <i>(Note 17)</i>	662,954			662,954	556,886
TOTAL EXPENSES	2,999,503	0	0	2,999,503	2,757,373
NET REVENUE/(DEFICIT)	(52,738)	52,818	0	80	43,563
OTHER PROVISIONS AND CREDITS:					
Change in appreciation, net of operating distribution	868,857	(25)		868,832	29,004
Change in undistributed general investment income	43,069	72,908		115,977	208,347
Other changes <i>(Note 10)</i>	(11,316)			(11,316)	0
TOTAL OTHER PROVISIONS AND CREDITS	900,610	72,883	0	973,493	237,351
CAPITAL CHANGES:					
Net change in pledge balances <i>(Note 6)</i>		(29,020)		(29,020)	(11,889)
Net change in interests in trusts held by others <i>(Note 12)</i>		21,174		21,174	0
Capital gifts for loan funds and facilities <i>(Note 15)</i>		15,604	\$ 546	16,150	11,237
Transfers between General Operating Account and endowment	(31,230)	(3,768)	5	(34,993)	(23,491)
Transfers between General Operating Account and split interest agreements <i>(Note 9)</i>		4,901	16	4,917	5,349
Non-operating net assets released from restrictions <i>(Note 2)</i>	34,952	(36,773)	1,821	0	0
TOTAL CAPITAL CHANGES	3,722	(27,882)	2,388	(21,772)	(18,794)
GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR	851,594	97,819	2,388	951,801	262,120
Endowment net change during the year	676,115	2,497,845	192,422	3,366,382	3,265,743
Split interest agreements net change during the year <i>(Note 9)</i>		23,283	71,935	95,218	93,317
NET CHANGE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	1,527,709	2,618,947	266,745	4,413,401	3,621,180
Cumulative effect of accounting change related to asset retirement obligation <i>(Notes 2 and 7)</i>	(33,323)			(33,323)	0
NET CHANGE DURING THE YEAR	1,494,386	2,618,947	266,745	4,380,078	3,621,180
Net assets, beginning of year	7,093,382	19,118,340	4,346,699	30,558,421	26,937,241
NET ASSETS, end of year	\$ 8,587,768	\$ 21,737,287	\$ 4,613,444	\$ 34,938,499	\$ 30,558,421

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

Statements of Changes in Net Assets of the Endowment

with summarized financial information for the year ended June 30, 2005

<i>In thousands of dollars</i>	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30	
				2006	2005
Gifts for capital (Note 15)	\$ 10,929	\$ 45,691	\$ 216,761	\$ 273,381	\$ 285,659
Investment return (Notes 3 and 8):					
Income from general investments	78,142	396,416		474,558	371,896
Change in realized and unrealized appreciation	608,889	3,030,307		3,639,196	3,673,064
Total investment return	687,031	3,426,723	0	4,113,754	4,044,960
Endowment income distributed for operations	(151,702)	(781,635)		(933,337)	(854,757)
Change in undistributed general investment income	(18,397)	(84,265)		(102,662)	(179,053)
Net investment return after distributions	516,932	2,560,823	0	3,077,755	3,011,150
Transfers between endowment and the General Operating Account:					
Unexpended income capitalized	31,574	1,020	5,224	37,818	9,929
Gifts capitalized	1,144	4,221	453	5,818	12,911
Other	(1,488)	(1,473)	(5,682)	(8,643)	651
Total transfers between endowment and the General Operating Account	31,230	3,768	(5)	34,993	23,491
Capitalization of split interest agreements (Note 9)		4,213	2,684	6,897	12,496
Net change in pledge balances (Note 6)		(23,617)	(51,986)	(75,603)	(64,329)
Net change in interests in trusts held by others (Note 8)		17,676	30,223	47,899	6,640
Other changes	(3)	(1,993)	3,056	1,060	(9,364)
Net assets released from restrictions (Note 2)	117,027	(108,716)	(8,311)	0	0
NET CHANGE DURING THE YEAR	676,115	2,497,845	192,422	3,366,382	3,265,743
Net assets of the endowment, beginning of year	4,032,215	17,899,424	3,921,409	25,853,048	22,587,305
NET ASSETS OF THE ENDOWMENT, end of year	\$ 4,708,330	\$ 20,397,269	\$ 4,113,831	\$ 29,219,430	\$ 25,853,048

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

Statements of Cash Flows

<i>In thousands of dollars</i>	For the year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 4,380,078	\$ 3,621,180
Adjustments to reconcile the change in net assets to net cash provided by/(used in) operating activities:		
Cumulative effect of accounting change related to asset retirement obligation	33,323	
Provision for depreciation	210,964	196,563
Change in the fair value of interest rate exchange agreements	(442,888)	402,462
Increase in pension and retirement obligations	80,201	53,117
Increase in interests in trusts held by others	(69,073)	(6,640)
Increase in liabilities due under split interest agreements	125,271	75,974
Gain on investments, net	(4,298,785)	(4,373,534)
Gifts restricted for capital purposes	(313,093)	(324,462)
Changes in operating assets and liabilities:		
Receivables, net	(51,177)	(12,504)
Prepayments and deferred charges	(4,888)	(13,124)
Pledges receivable, net	104,220	76,960
Accounts payable	(98,156)	(22,927)
Deposits and other liabilities	20,196	62,503
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	(323,807)	(264,432)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to students, faculty, and staff	(55,325)	(52,184)
Payments received on student, faculty, and staff loans	45,203	42,406
Increase in other notes receivable	(6,631)	(2,605)
Proceeds from the sales and maturities of investments	38,883,059	28,217,513
Purchase of investments	(22,814,630)	(18,735,451)
Additions to fixed assets	(466,858)	(538,876)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	15,584,818	8,930,803
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of debt	921,596	629,901
Debt repayments	(848,478)	(385,486)
Gifts restricted for capital purposes	313,093	324,462
Change associated with securities lending agreements	(15,638,182)	(9,238,190)
Increase in government loan advances	104	811
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	(15,251,867)	(8,668,502)
NET CHANGE IN CASH	9,144	(2,131)
Cash, beginning of year	34,450	36,581
CASH, end of year	\$ 43,594	\$ 34,450
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 119,526	\$ 94,607
Change in accounts payable related to fixed asset additions	24,804	(13,372)

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

Notes to Financial Statements

1. UNIVERSITY ORGANIZATION

Harvard University (the “University”) is a private, not-for-profit institution of higher education with approximately 7,000 undergraduate and 12,780 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, ten graduate and professional Schools, the Radcliffe Institute for Advanced Study, the Division of Continuing Education, a variety of research museums and institutes, and an extensive library system to support the teaching and research activities of the Harvard community. The President and Fellows of Harvard College (the “Corporation”), a governing board of the University, has

oversight responsibility for all of the University’s financial affairs. The Corporation delegates substantial authority to the Schools and departments for the management of their individual resources and operations.

The University includes Harvard Management Company (HMC), a wholly owned subsidiary founded in 1974 to manage the University’s investment assets. HMC is governed by a Board of Directors that is appointed by the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION The consolidated financial statements present the activities of Harvard University as a whole, including all significant affiliated organizations.

The financial statements include certain prior year summarized comparative information in total, not by net asset class. Such information does not represent sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2005, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation.

Funds transferred to the University on behalf of specific beneficiaries are reported as agency transactions in the *Balance Sheets* and are not included in the *Statements of Changes in Net Assets*.

CHANGE IN ACCOUNTING POLICIES During fiscal 2006, the University changed its policies related to cash, cash equivalents, and working capital investments. Cash equivalents, defined as funds that have maturities of 90 days or less when purchased, and working capital investments have been reclassified to investment holdings. These changes were made to report as investments those funds that have short-term maturities and those that are managed as part of the University’s investment portfolio. This change resulted in a reduction of cash from \$1,565.6 million to \$34.5 million at the end of fiscal 2005 as reflected in the *Balance Sheets* and *Statements of Cash Flows* and was the principal component of a related reduction in “Net cash provided by/(used in) operating activities” from \$1,270.0 million to \$264.4 million.

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

A) Unrestricted net assets are not subject to donor-imposed restrictions. Funds invested in fixed assets and unrestricted funds functioning as endowment comprise 68% of the University’s unrestricted net assets. In addition, this category includes unrestricted gifts and endowment income balances, University-designated loan funds, and other unrestricted current funds.

B) Temporarily restricted net assets are subject to legal or donor-imposed stipulations that will be satisfied either by actions of the University, the passage of time, or both. These net assets include gifts donated for a particular purpose, amounts subject to time restrictions such as funds pledged for future payment, or amounts subject to legal restrictions such as portions of otherwise unrestricted capital appreciation, which must be reported as temporarily restricted net assets in accordance with Massachusetts law.

C) Permanently restricted net assets are subject to donor-imposed stipulations that they be invested to provide a perpetual source of income to the University. Generally, donors of these assets require the University to maintain and invest the original contribution in perpetuity, but permit the use of some or all investment earnings for general or specific purposes.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net

assets. Income earned by restricted fund and gift accounts is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Unconditional pledges are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted to unrestricted net assets and appear as “Net assets released from restrictions” and “Non-operating net assets released from restrictions” in the *Statements of Changes in Net Assets*.

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

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

COLLECTIONS The University’s vast array of museums and libraries houses priceless works of art, historical treasures, literary works, and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recorded or capitalized for financial statement purposes.

INSURANCE PROGRAMS The University, together with the Harvard-affiliated teaching hospitals, has formed a captive insurance company, Controlled Risk Insurance Company (CRICO), to provide professional liability, general liability, and medical malpractice insurance for its shareholders. The University self insures a portion of its professional

liability and general liability programs and maintains a reserve for liability claims. CRICO provides medical malpractice coverage with no deductible for Harvard University Health Services, the Harvard School of Dental Medicine, and the Harvard School of Public Health. The University also maintains self-insurance programs and reserves for claims for automobile liability, property, and workers’ compensation; these programs are supplemented with commercial excess insurance above the University’s self-insured limit. In addition, the University is self insured for unemployment, life insurance, the primary senior health plan, and, as of January 1, 2005, all health plans for active employees. The University’s claims liabilities are recognized as incurred, including claims that have been incurred but not reported, and are included in operating expenses.

TAX-EXEMPT STATUS The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

USE OF ESTIMATES The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

NEW PRONOUNCEMENT In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which provides clarity surrounding the recognition of conditional asset retirement obligations, referred to in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Based on the guidance in FIN 47, management of the University has estimated the fair value of known asset retirement obligations.

FIN 47 requires the initial application of the interpretation to be recognized as a cumulative effect of a change in an accounting principle. Specifically, FIN 47 requires the recognition, a cumulative effect, the cumulative accretion, and accumulated depreciation for the period from the date the liability was incurred to the date of adoption of this interpretation. The liability is presumed to be incurred on the date that the legal requirement to perform the asset retirement activity was enacted. The effect of FIN 47’s adoption for the University is discussed in *Note 7*.

3. INVESTMENT HOLDINGS

The significant accounting policies of the University related to investments are as follows:

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

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

these instruments. Actual results could differ from these estimates and could have a material impact on the financial statements.

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

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

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

The majority of the University's investments are managed in the General Investment Account (GIA), a pooled fund that consists primarily of endowment assets.

Other investments are managed separately from the GIA. These investments consist primarily of fixed-income securities (principally government securities and certificates of deposit held for the University's working capital needs) and various managed bond and equity portfolios associated with split interest agreements.

The University's investment holdings as of June 30, 2006 and 2005 are summarized in the following table (in thousands of dollars):

	2006	2005
Investment portfolio, at market:		
Pooled general investment assets ¹	\$ 35,083,612	\$ 29,773,693
Other investments ²	795,058	1,021,066
Fair value of interest rate exchange agreements	(17,926)	(460,814)
Total investment portfolio, at market	35,860,744	30,333,945
Market value of securities pledged to counterparties	2,905,867	19,947,959
Securities lending and other liabilities associated with the investment portfolio	(4,516,981)	(20,343,700)
TOTAL INVESTMENT HOLDINGS³	\$ 34,249,630	\$ 29,938,204

Investment holdings as of June 30, 2006 and 2005 were comprised of the following (in thousands of dollars):

	2006	2005
Pooled general investment net assets:		
General Operating Account	\$ 3,904,716	\$ 3,408,911
Endowment	28,589,702	25,192,841
Split interest agreements	779,902	612,218
Other internally designated	198,178	163,982
Total pooled general investment net assets	33,472,498	29,377,952
Other investments ²	795,058	1,021,066
Fair value of interest rate exchange agreements	(17,926)	(460,814)
TOTAL INVESTMENT HOLDINGS³	\$ 34,249,630	\$ 29,938,204

¹ Excludes securities pledged to counterparties.

² Includes split interest agreement assets of \$516,478 and \$463,673 as of June 30, 2006 and 2005, respectively.

³ Includes cash equivalents that consist principally of funds that have maturities of 90 days or less. Cash equivalents classified as investments were \$1,859,259 and \$1,531,179 as of June 30, 2006 and 2005, respectively.

A summary of the University's total return on investments for fiscal 2006 and 2005 is presented below (in thousands of dollars):

	2006	2005
Return on pooled general investments:		
Realized and unrealized gains, net	\$ 4,290,895	\$ 4,339,695
Investment income	558,322	437,903
Total return on pooled general investments*	4,849,217	4,777,598
Return on other investments:		
Realized and unrealized gains, net	7,890	33,839
Investment income	23,941	4,912
Total return on other investments	31,831	38,751
Unrealized gain/(loss) on interest rate exchange agreements	442,888	(402,462)
TOTAL RETURN ON INVESTMENTS	\$ 5,323,936	\$ 4,413,887

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

The University employs a unit method of accounting for pooled general investments. Each participating fund enters into and withdraws from the pooled investment account based on monthly unit market values. Changes in the market value of investments are distributed proportionately to each fund that participates in the investment pool. Net general investment income distributed during

the year is allocated on a per unit basis to each participating fund.

The changes in the market value and income of participating units for the years ended June 30, 2006 and 2005 were as follows:

	2006	2005
Unit market value at end of year	\$ 1,635.04	\$ 1,425.68
Unit market value at beginning of year	1,425.68	1,215.68
Increase in unit market value due to realized and unrealized appreciation	209.36	210.00
Income earned per unit on general investments	27.27	21.16
TOTAL UNIT RETURN OF POOLED GENERAL INVESTMENTS*	\$ 236.63	\$ 231.16
TOTAL UNIT RETURN PERCENTAGE USING MONTHLY COMPOUNDING*	16.7%	19.2%

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

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the world equity, fixed-income, commodities, real estate, and private equity markets. The core investment portfolio is structured to mirror the market exposures defined by the Policy Portfolio and is considered to be "unhedged" as represented by "Total investments" in the table on page 39. The Policy Portfolio is the long-term asset mix that is most likely to meet the University's long-term return goals with the appropriate level of risk. It serves as the benchmark against which the performance of the pooled general investments is measured. In addition, the University seeks to enhance the returns of certain asset classes through strategies designed to capture mispricings in specific financial instruments without changing the fundamental risk profile of the core investment account. These strategies generally involve several distinct but highly correlated financial instruments that are weighted to neutralize market risk. Depending on the characteristics of the financial instruments, the specific positions within a given strategy may be recorded on the asset or liability sections of the table on page 39.

The table on page 39 delineates securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities. The fair value of collateral pledged to counterparties that cannot be sold or repledged as of June 30, 2006 was

\$906.9 million and as of June 30, 2005 was \$967.9 million. The fair value of collateral accepted by the University as of June 30, 2006 was \$2,096.8 million and as of June 30, 2005 was \$4,468.6 million. The portion of this collateral that was sold or repledged as of June 30, 2006 was \$1,633.3 million and as of June 30, 2005 was \$3,007.7 million. The cost of the net investments (the sum of total investments, total financial instruments purchased under hedge transactions, and total financial instruments sold, not yet purchased, under hedge transactions) was \$27,411.0 million as of June 30, 2006 and \$41,582.0 million as of June 30, 2005.

The declines in the "Financial instruments purchased under hedge transactions" assets and "Cash collateral held under security lending agreements" liabilities in the table on page 39 reflect a reduction in the internally managed fixed-income arbitrage positions due to the departure of the fixed-income management team in fiscal 2006. The majority of the arbitrage investments managed by the fixed-income team were closed at fair market value during the fiscal year. On February 21, 2006, the remaining fixed-income arbitrage investments were sold in a private transaction at their fair value of \$1,381.8 million. A third party was contracted to independently value the arbitrage investments sold.

The pooled general investment assets and liabilities as of June 30, 2006 and 2005 are summarized as follows (in thousands of dollars):

	2006		2005	
POOLED GENERAL INVESTMENT ASSETS:				
Investments:				
Domestic equity and convertible securities	\$ 5,957,302		\$ 5,862,131	
Securities pledged to counterparties	295,341	\$ 6,252,643	232,511	\$ 6,094,642
Foreign equity and convertible securities	5,427,138		3,882,131	
Securities pledged to counterparties	525,970	5,953,108	504,233	4,386,364
Domestic fixed-income securities	1,691,594		209,902	
Securities pledged to counterparties	801,097	2,492,691	2,269,130	2,479,032
Foreign fixed-income securities	21,220		121,935	
Securities pledged to counterparties	594,072	615,292	653,828	775,763
Emerging markets equity, debt, and options	2,062,680		1,194,241	
Securities pledged to counterparties	396,684	2,459,364	26,110	1,220,351
High-yield securities	1,237,422		1,235,380	
Securities pledged to counterparties	43,494	1,280,916	287,559	1,522,939
Absolute return and special situations	4,431,298		3,209,874	
Securities pledged to counterparties	25,827	4,457,125		3,209,874
Private equities		3,072,182		2,357,811
Real assets ¹	5,839,778		5,730,902	
Securities pledged to counterparties	112,951	5,952,729	1,000,138	6,731,040
Total investments		32,536,050		28,777,816
Financial instruments purchased under hedge transactions:				
Equity and convertible securities	1,394,026		2,327,607	
Securities pledged to counterparties	45,672	1,439,698	57,606	2,385,213
Fixed-income securities	768,074		1,011,684	
Securities pledged to counterparties	64,759	832,833	14,746,561	15,758,245
Options		38,478		1,273,354
Real assets ¹		20,110		15,584
Total financial instruments purchased under hedge transactions		2,331,119		19,432,396
Collateral advanced under security borrowing agreements ²		1,724,361		1,747,923
Cash and short-term investments	1,741,657		999,190	
Securities pledged to counterparties		1,741,657	170,283	1,169,473
Accounts receivable/(payable), net ³		(343,708)		(1,405,956)
TOTAL POOLED GENERAL INVESTMENT ASSETS		37,989,479		49,721,652
POOLED GENERAL INVESTMENT LIABILITIES:				
Financial instruments sold, not yet purchased, under hedge transactions:				
Equity and convertible securities		1,416,443		1,246,460
Fixed-income securities		410,547		468,383
Options		8,819		285,941
Total financial instruments sold, not yet purchased, under hedge transactions		1,835,809		2,000,784
Cash collateral held under security lending agreements ⁴		2,681,172		18,342,916
TOTAL POOLED GENERAL INVESTMENT LIABILITIES		4,516,981		20,343,700
TOTAL POOLED GENERAL INVESTMENT NET ASSETS		\$ 33,472,498		\$ 29,377,952

¹ Real assets include investments in asset classes that hedge against inflation.

² The collateral advanced under security borrowing agreements is in the form of cash.

³ As of June 30, 2006, accounts receivable and payable related to undistributed income and purchases and sales of securities were \$817,568 and \$1,161,276, respectively. The amounts at June 30, 2005 were \$712,686 and \$2,118,642, respectively. As of June 30, 2006, of the \$817,568 of accounts receivable, gross receivables related to off-balance sheet instruments were \$68,946, and of the \$1,161,276 of accounts payable, gross payables related to off-balance sheet instruments were \$26,466. As of June 30, 2005, of the \$712,686 of accounts receivable, gross receivables related to off-balance sheet instruments were \$112,603, and of the \$2,118,642 of accounts payable, gross payables related to off-balance sheet instruments were \$1,231,324.

⁴ The minimum collateral the University requires by contract on each stock loan and repurchase agreement is 100% of the market value of the security loaned. Collateral is moved as is required by fluctuations in the market value of the security loaned.

The University uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement. These include futures, options, interest rate exchange agreements, interest rate cap and floor agreements, and forward purchase and sale agreements, which are exchange traded or executed over the counter. These instruments are used in both the core portfolio to gain exposure to a given asset class (displayed as “unhedged” market exposure in the following tables) and in the arbitrage strategies to enhance the returns of certain asset classes without increasing the market risk to the underlying asset class (displayed as “hedged” market exposure in the following tables). The market risk of a strategy is influenced by the relationship between the

financial instruments with off-balance sheet risk and the offsetting positions recorded in the *Balance Sheets*. The University controls market risk through the use of industry standard analytical tools that measure the market exposure of each position within a strategy. The strategies are monitored daily, and positions are frequently adjusted in response to changes in the financial markets.

The following table summarizes the market exposure (expressed in cash market equivalents, as discussed on the following page), net ending fair value, net average fair value, and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 2006 (in thousands of dollars):

	Market exposure			Net ending fair value of off-balance sheet positions		Net average fair value	Credit exposure*
	Long unhedged	Long hedged	Short hedged	Unhedged	Hedged		
Equity instruments:							
Equity futures	\$ 469,645		\$ (677,883)		\$ 1,611	\$ 1,098	\$ 49,118
Equity options	1,861	\$ 11,031	(233,370)	\$ 1,861	31,763	44,627	18,657
Equity exchange agreements	607,916	18,702	(438,633)	(10,591)	28,737	6,326	2,814
Total equity instruments	1,079,422	29,733	(1,349,886)	(8,730)	62,111	52,051	70,589
Fixed-income instruments:							
Fixed-income futures	1,091,435	176,929	(26,829)	70		78	9,029
Fixed-income options	14,070	140,557	(157,873)	(483)	(7,298)	206,871	9,249
Interest rate exchange agreements	154,842	222,504	(254,960)	(1,573)	(1,977)	(252,746)	
Interest rate caps and floors		89,903	(30)		5,341	48,670	2,512
Total fixed-income instruments	1,260,347	629,893	(439,692)	(1,986)	(3,934)	2,873	20,790
Commodity instruments:							
Commodity futures			(46,378)				2,115
Commodity options		10	(10)			24	
Commodity exchange agreements	1,549,575					205,518	
Total commodity instruments	1,549,575	10	(46,388)	0	0	205,542	2,115
Currency forwards	907,316	778,730	(1,682,154)	5,949	(2,058)	(11,049)	2,569
Currency options		77,218	(37,623)		13,805	147,390	416
TOTAL	\$ 4,796,660	\$ 1,515,584	\$ (3,555,743)	\$ (4,767)	\$ 69,924	\$ 396,807	\$ 96,479

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

The following table summarizes the market exposure (expressed in cash market equivalents, as discussed below), net ending fair value, net average fair value, and

credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 2005 (in thousands of dollars):

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

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

Financial instruments with off-balance sheet risk are recorded on the balance sheet at fair value. Fair value is a function of the characteristics of the individual financial instruments and their relationship to current market conditions, as well as the length of time each instrument has been held. For example, domestic futures contracts, which expire periodically, are subject to daily cash settlements and, as such, the end-of-day fair value of these contracts is zero. In contrast, interest rate exchange agreements may be held for the life of a strategy and may reflect significant unrealized gains and losses depending on the change in value since the inception of the contract. The cash market equivalent of exposure represents the notional value of the off-balance sheet instrument adjusted for its correlation to its underlying index or asset. Market exposure is most meaningful when related to the corresponding positions recorded in the *Balance Sheets*. Fair value and market exposure do not accurately measure risk.

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

Financial instruments with off-balance sheet risk necessarily involve counterparty credit exposure. The policy of the University is to require collateral to the maximum extent possible under normal trading practices. Collateral is moved on a daily basis as required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the U.S. Treasury. In the event of counterparty default, the University has the right to use the collateral to offset the loss associated with replacement of the agreement. The University enters into arrangements only with counterparties believed to be creditworthy.

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

The asset allocation of the University's portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as interest rate, market, sovereign, and credit risks. The University anticipates that the value of its investments may, from time to time, fluctuate substantially as a result of these risks.

The University has also entered into agreements with private equity and real estate partnerships and external investment managers, which require periodic cash contributions totaling approximately \$7,218.4 million through fiscal 2016.

The University sold a significant portion of timber assets in a single transaction during the year ended June 30, 2006.

4. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of \$4.1 million and \$3.7 million as of June 30, 2006 and 2005, respectively, were as follows (in thousands of dollars):

	2006	2005
Investment income	\$ 64,195	\$ 8,953
U.S. Government, principally related to research	36,799	38,562
Non-federal sponsored research	6,019	6,343
Tuition and fees	11,282	10,614
Publications	23,162	21,804
Rent	17,397	24,677
Gift receipts	8,834	22,605
Other	55,105	38,058
TOTAL RECEIVABLES, NET	\$ 222,793	\$ 171,616

5. NOTES RECEIVABLE

Notes receivable, net of reserves for doubtful accounts of \$7.0 million and \$7.9 million as of June 30, 2006 and 2005, respectively, were as follows (in thousands of dollars):

	2006	2005
Student:		
Government revolving loans	\$ 60,115	\$ 60,586
Institutional loans	61,829	59,984
Federally guaranteed loans	4,564	8,019
Total student	126,508	128,589
Faculty and staff	130,997	118,794
Other	28,792	22,161
TOTAL NOTES RECEIVABLE, NET	\$ 286,297	\$ 269,544

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled \$57.0 million and \$56.9 million as of June 30, 2006 and 2005, respectively, and are classified as liabilities in the *Balance Sheets*. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

In addition to administering institutional loan programs, the University participates in various federal loan programs. Federally insured loans are generally repaid over a ten-year period and earn interest at an adjustable rate that approximates the 90-day U.S. Treasury Bill rate plus 3.0%. Principal and interest payments on these loans are insured by the American Student Assistance Corporation and are reinsured by the federal government.

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

Notes receivable are presented at fair value with the exception of those under federally guaranteed student loan programs. These notes are subject to significant restrictions, and accordingly, it is not practicable to determine the fair value of these notes receivable.

6. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are recorded as pledges receivable in the years promised at the present value of expected cash flows, net of an allowance for uncollectible pledges. Pledges receivable included in the financial statements as of June 30, 2006 and 2005 are expected to be realized as follows (in thousands of dollars):

	2006	2005
Within one year	\$ 86,104	\$ 97,501
Between one and five years	344,412	390,002
More than five years	180,677	240,768
Less: discount and allowance for unfulfilled pledges	(70,570)	(83,428)
TOTAL PLEDGES RECEIVABLE, NET	\$ 540,623	\$ 644,843

Discounts of \$42.4 million and \$36.2 million for the years ended June 30, 2006 and 2005, respectively, were calculated using discount factors based on the appropriate U.S. Treasury Note rates.

Pledges receivable as of June 30, 2006 and 2005 have been designated for the following purposes (in thousands of dollars):

	2006	2005
General Operating Account balances:		
Gifts for current use	\$ 123,074	\$ 130,250
Non-federal sponsored research	102,532	101,049
Loan funds and facilities	11,293	34,217
Total General Operating Account balances	236,899	265,516
Endowment	303,724	379,327
TOTAL PLEDGES RECEIVABLE, NET	\$ 540,623	\$ 644,843

Because of uncertainties with regard to realizability and valuation, bequest intentions and other conditional promises are not estimated by management and are only recognized as assets if and when the specified conditions are met.

7. FIXED ASSETS

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

The major categories of fixed assets as of June 30, 2006 and 2005 are summarized as follows (in thousands of dollars):

	2006	2005	Estimated useful life (in years)
Housing	\$ 844,643	\$ 811,923	35
Research facilities	1,323,422	1,244,856	*
Classrooms and offices	1,025,588	926,520	35
Libraries	367,700	340,711	35
Museums and assembly facilities	223,637	210,840	35
Athletics facilities	127,840	109,133	35
Service facilities	294,550	267,911	35
Other facilities and land	933,182	880,943	**
Construction in progress	361,056	288,816	N/A
Equipment	471,911	401,242	***
Total fixed assets at cost	5,973,529	5,482,895	
Less: accumulated depreciation	(1,894,993)	(1,685,057)	
TOTAL FIXED ASSETS, NET	\$ 4,078,536	\$ 3,797,838	

* The estimated useful lives used for calculating historical cost depreciation of components range from 10 to 45 years.

** The estimated useful life of other facilities is 35 years; land is not depreciated.

*** The estimated useful lives of equipment range from 3 to 8 years.

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

The following table illustrates the effect on the change in net assets for fiscal 2006 and 2005 as if this interpretation had been previously applied (in thousands of dollars):

The costs of research facilities are separated into the shell, roof, finishes, fixed equipment, and services. These components are depreciated separately.

	2006	2005
Change in net assets, as reported	\$ 4,413,401	\$ 3,621,180
Less: total interest accretion costs	(1,597)	(1,517)

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

PROFORMA CHANGE IN NET ASSETS \$ 4,411,804 \$ 3,619,663

Upon adoption of FIN 47 on June 30, 2006, the University recognized a conditional asset retirement obligation of \$33.3 million that is reported as a "Cumulative effect of accounting change related to asset retirement obligation" in the *Statements of Changes in Net Assets with General Operating Account Detail*, and as a liability included in "Deposits and other liabilities" in the *Balance Sheets*. The liability is associated with buildings that are fully depreciated, therefore no adjustment was made to the cost of the assets.

8. ENDOWMENT FUNDS

The University's endowment consists of approximately 11,000 separate funds established over many years for a wide variety of purposes. Endowment fund balances, including funds functioning as endowment, are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the market value equals or exceeds book value. Although funds functioning as endowment are not subject to permanent donor restrictions, decisions to spend their principal

require the approval of the Corporation. All but a small fraction of the endowment is invested in the GIA (*Note 3*).

The University is also the beneficiary of certain irrevocable trusts held and administered by others. The estimated fair values of trust assets, which approximate the present values of expected future cash flows from the trusts, are recognized as assets and increases in net assets when the required trust documentation is provided to the University.

Endowment funds as of June 30, 2006 and 2005 are summarized below (in thousands of dollars):

	2006			2005
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment funds		\$ 17,788,547	\$ 3,581,083	\$ 21,369,630
Funds functioning as endowment:				
Departmental funds	\$ 3,630,012	2,403,888		6,033,900
University funds	1,078,318	134,042		1,212,360
Pledge balances		53,116	250,608	303,724
Interests in trusts held by others		17,676	282,140	299,816
TOTAL ENDOWMENT FUNDS	\$ 4,708,330	\$ 20,397,269	\$ 4,113,831	\$ 29,219,430
				\$ 25,853,048

The University's endowment income distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of spendable income. Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of the annual income distribution funded by dividend and interest income or by capital gains may vary significantly from year to year. Amounts withdrawn from endowment capital gains to fund the fiscal 2006 and 2005 distributions totaled \$685.0 million and \$767.7 million, respectively.

dollars per unit) that is approved by the Corporation. This rate is not based on a specific formula, nor is it directly tied to current investment returns. Rather, it reflects expectations about long-term returns and inflation rates and seeks to maintain the distribution rate at between 4.5% and 5.0% of the market value of the endowment. The table below shows the total return on endowment for the past five fiscal years, as well as the distribution rate for the following fiscal years.

Endowment income capitalized to endowment principal is available to meet future spending needs, subject to the approval of the Corporation.

The portion of investment returns earned on endowment and distributed each year is based on a rate (stated in

Fiscal year	Endowment investment returns (dollar amounts in thousands)				Distribution rate ^{1,2}	
	Interest and dividends	Net appreciation	Total return ³	Total return % ^{2,3}	Per unit	As a % of market value
2006	\$ 474,558	\$ 3,639,196	\$ 4,113,754	16.7%	\$ 69.73	4.3%
2005	371,896	3,673,064	4,044,960	19.2	60.99	4.3
2004	192,843	3,607,677	3,800,520	21.1	54.17	4.5
2003	252,524	1,807,171	2,059,695	12.5	49.70	4.9
2002	378,999	(474,416)	(95,417)	(0.5)	47.11	5.1
FIVE-YEAR TOTAL	\$ 1,670,820	\$ 12,252,692	\$ 13,923,512			

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

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

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

9. SPLIT INTEREST AGREEMENTS

Under split interest agreements, donors enter into arrangements with the University in which the University receives benefits that are shared with other beneficiaries and institutions. As of June 30, 2006, the University held split interest agreement funds—pooled funds, gift annuities, and charitable remainder and lead trusts—for approximately 1,800 donors. When a trust is established, split interest agreement assets are recorded at fair value. Liabilities are

recorded for the present value of estimated future payments due to beneficiaries and other institutions.

Gifts for capital associated with split interest agreements are presented at their net present value. The changes in split interest agreement net assets for fiscal 2006 and 2005 were as follows (in thousands of dollars):

	2006			2005
	Temporarily restricted	Permanently restricted	Total	Total
Gifts for capital (<i>Note 15</i>)	\$ 5,254	\$ 18,308	\$ 23,562	\$ 27,566
Investment return:				
Investment income	9,260	19,236	28,496	31,749
Change in realized and unrealized appreciation	38,897	80,801	119,698	133,734
Total investment return	48,157	100,037	148,194	165,483
Payments to annuitants	(18,445)	(38,315)	(56,760)	(50,347)
Conversions to endowment	(4,213)	(2,684)	(6,897)	(12,496)
Transfers to the General Operating Account	(4,901)	(16)	(4,917)	(5,349)
Change in liabilities and other adjustments	(2,569)	(5,395)	(7,964)*	(31,540)
NET INCREASE DURING THE YEAR	23,283	71,935	95,218	93,317
Total split interest agreement net assets, beginning of year	164,355	343,424	507,779	414,462
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	\$ 187,638	\$ 415,359	\$ 602,997	\$ 507,779

* Includes the fiscal 2006 effect of recording charitable lead trusts previously included in pledges.

Split interest agreement net assets as of June 30, 2006 and 2005 consisted of the following (in thousands of dollars):

	2006	2005
Split interest agreement investment holdings (<i>Note 3</i>):		
Charitable remainder trusts	\$ 792,381	\$ 689,903
Charitable lead trusts	84,082	
Charitable gift annuities	313,302	272,660
Pooled income funds	106,615	113,328
Total split interest agreement investment holdings	1,296,380	1,075,891
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	(581,804)	(473,734)
Amounts due to other institutions	(111,579)	(94,378)
Total liabilities due under split interest agreements	(693,383)	(568,112)
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS	\$ 602,997	\$ 507,779

10. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2006 and 2005 are summarized as follows (in thousands of dollars):

	Fiscal year of issue	Remaining years to maturity	One-year effective interest rate	Outstanding principal	
				2006	2005
Tax-exempt bonds and notes payable:					
Variable-rate bonds and notes payable:					
Series L - weekly	1990	18	4.7%	\$ 71,140	\$ 71,140
Series R - daily	2000–2006	43	2.8	131,200	117,160
Series Y - weekly	2000	29	5.1	117,905	117,905
Series BB - weekly	2001	28	2.8	196,700	196,700
Series HH - weekly	2004	27	5.0	92,235	92,235
Series GG-1 - weekly	2005	23	4.4	205,935	205,935
Commercial paper	Various	Various	3.0	189,162	318,792
Total variable-rate bonds and notes payable			3.8	1,004,277	1,119,867
Fixed-rate bonds:					
Series N	1992	14	6.3	78,925*	78,848
Series P	1995	1	5.4	1,335	103,530
Series Z	2001	10	5.1	93,838*	101,834
Series AA	2001	3	5.5	15,171*	20,025
Series DD	2002	29	5.0	134,917*	134,884
Series FF	2003	31	5.1	275,979*	275,973
Series 2005A	2005	30	5.0	94,041*	94,205
Series 2005B	2006	26	5.0	105,422*	
Series 2005C	2006	29	5.0	130,312*	
Radcliffe College Series 1997	1998	N/A	4.7		175
Total fixed-rate bonds			5.2	929,940	809,474
Total tax-exempt bonds and notes payable			4.4	1,934,217	1,929,341
Taxable bonds and notes payable:					
Commercial paper	Various	Various	5.1	329,224	413,031
Fixed-rate bonds	1992	1	8.1	115,000	115,000
Series CC	2001	N/A	7.0		247,000
Series GG-2	2005	7	4.6	52,250	58,465
Series 2006A	2006	31	6.3	401,329*	
Total taxable bonds and notes payable			6.0	897,803	833,496
Other notes payable	Various	Various	Various	90,227	86,292
TOTAL BONDS AND NOTES PAYABLE			4.9%	\$ 2,922,247	\$ 2,849,129

* Series N, DD, FF, and 2006A principal are net of \$1.1 million, \$0.9 million, \$0.2 million, and \$0.7 million of discounts, respectively. Series Z, AA, 2005A, 2005B, and 2005C principal include premiums of \$1.5 million, \$0.5 million, \$4.9 million, \$4.9 million, and \$4.4 million, respectively.

Interest expense, recorded in both the “Space and occupancy” and “Other expenses” lines of the *Statements of Changes in Net Assets with General Operating Account Detail*, was \$124.9 million and \$96.9 million for fiscal 2006 and 2005, respectively. Excluding maturity of commercial paper and other notes payable, as well as unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2007	\$ 129,395
2008	19,265
2009	20,030
2010	15,810
2011	16,555
Thereafter	2,099,225
TOTAL PRINCIPAL PAYMENTS	\$ 2,300,280

In fiscal 2006, the University issued \$105.6 million of Series 2005B bonds (including a premium of \$5.1 million). The Series 2005B bonds refunded \$102.1 million of Series P bonds and will mature in 2032. Also in fiscal 2006, the University issued \$130.5 million (including a premium of \$4.6 million) of tax-exempt fixed-rate Series 2005C bonds and \$401.3 million (net of a \$0.7 million discount) of taxable fixed-rate Series 2006A bonds, which were used in part to redeem the University's outstanding Series CC bonds. The Series 2005C bonds and Series 2006A bonds mature in 2035 and 2037, respectively.

An \$11.3 million loss resulting from the fiscal 2006 refunding of Series P bonds and the refinancing of Series CC bonds is reflected in the "Other changes" line of the *Statements of Changes in Net Assets with General Operating Account Detail*.

In fiscal 2006, the seventh tranche of Series R current refunding bonds was issued. This tranche totaled \$14.0 million and brought the total amount outstanding under this series to \$131.2 million. These bonds, which are in a daily variable-rate reset mode, represent a current refunding of tax-exempt principal payments made throughout the calendar year. Also in fiscal 2006, the University reauthorized its existing tax-exempt commercial paper program. With this action, the authorized limit on the program was raised from \$650.0 million to \$1.0 billion.

In fiscal 2005, the University issued \$205.9 million of tax-exempt weekly variable-rate reset Series GG-1 bonds and \$58.5 million of taxable weekly variable-rate reset Series GG-2 bonds to finance a new research facility. The Series GG-1 and Series GG-2 bonds mature in 2029 and 2013, respectively.

Also in fiscal 2005, the University issued \$94.2 million (including a premium of \$5.1 million) of Series 2005A tax-exempt fixed-rate bonds maturing in 2036 to finance a range of University capital projects and a \$13.5 million sixth tranche of variable-rate Series R current refunding bonds.

Based on quoted market prices, the estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was \$2,887.1 million and \$2,837.8 million as of June 30, 2006 and 2005, respectively.

In the event that the University receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase price of

the bonds will be paid from the remarketing proceeds of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered.

In July 2006, the University issued a total of \$416.6 million of new debt. The new debt is comprised of \$225.8 million of tax-exempt daily and weekly variable-rate reset Series 2006B bonds to finance graduate housing and an additional \$190.8 million in Series EE tax-exempt commercial paper to fund various campus projects. The Series 2006B bonds mature in 2037.

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

The fair value of interest rate exchange agreements is the estimated amount that the University would have received or (paid), including accrued interest, to terminate the agreements on the dates of the *Balance Sheets*, taking into account the creditworthiness of the underlying counterparties. The notional amount and fair value of interest rate exchange agreements were \$3,542.6 million and \$(17.9) million, respectively, as of June 30, 2006 and \$3,723.8 million and \$(460.8) million, respectively, as of June 30, 2005.

The fair value of these agreements is included in the "Investment portfolio, at market" line in the *Balance Sheets*. The loss realized from the monthly settling of these agreements was \$18.5 million and \$35.5 million for fiscal 2006 and 2005, respectively. All unrealized and realized gains and losses from interest rate exchange agreements are included in the "Change in appreciation, net of operating distribution" line in the *Statements of Changes in Net Assets with General Operating Account Detail*.

11. EMPLOYEE BENEFITS

The University offers current employees a choice of health plans, a dental plan, short-term and long-term disability plans, life insurance, tuition assistance, and a variety of other benefits such as subsidized passes for public transportation and for Harvard athletic facilities. In addition, the University has pension plans covering substantially all employees.

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

PENSION BENEFITS Faculty members and certain long service administrative officers participate in defined contribution plans that are funded on a current basis. All staff and hourly employees are covered by a retirement program that includes a defined benefit component, a defined contribution component, or a combination of the two.

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

were \$776.4 million and \$709.6 million as of June 30, 2006 and 2005, respectively. In addition, the University had internally designated and invested \$35.1 million and \$24.6 million as of June 30, 2006 and 2005, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of \$79.3 million and \$76.8 million for fiscal 2006 and 2005, respectively.

POSTRETIREMENT HEALTH BENEFITS The University provides defined benefit postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2006, the University had internally designated and invested \$157.9 million to fund the postretirement health benefit accrued liability of \$441.5 million. As of June 30, 2005, the University had internally designated and invested \$126.0 million to fund an accrued liability of \$371.8 million.

The following table summarizes the projected benefit obligation for the University for fiscal 2006 and 2005 (in thousands of dollars):

	2006	2005	2006	2005
	Pension benefits		Other benefits	
Change in projected benefit obligation:				
Benefit obligation at beginning of year	\$ 632,362	\$ 580,457	\$ 520,746	\$ 504,965
Service cost	14,580	12,783	27,724	19,369
Interest cost	33,135	34,462	29,039	26,554
Plan participants' contributions			3,186	2,770
Actuarial (gain)/loss	(57,727)	38,537	(59,666)	(19,063)
Benefits paid	(38,849)	(33,877)	(15,925)	(13,849)
PROJECTED BENEFIT OBLIGATION, end of year	\$ 583,501	\$ 632,362	\$ 505,104	\$ 520,746

The accumulated benefit obligation for pension benefits at June 30, 2006 and 2005 was \$507.5 million and \$565.6 million, respectively.

The following tables summarize the fair value of plan assets and the accrued benefit liability for the University for fiscal 2006 and 2005 (in thousands of dollars):

	2006	2005	2006	2005
	Pension benefits		Other benefits	
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	\$ 709,639	\$ 639,952		
Actual return on plan assets	105,652	103,564		
Employer contributions			\$ 12,739	\$ 11,079
Plan participants' contributions			3,186	2,770
Benefits paid	(38,849)	(33,877)	(15,925)	(13,849)
FAIR VALUE OF PLAN ASSETS, end of year	\$ 776,442	\$ 709,639	\$ 0	\$ 0
Accrued benefit liability:				
Funded status	\$ 192,941	\$ 77,277	\$ (505,104)	\$ (520,746)
Unrecognized actuarial (gain)/loss	(204,142)	(72,635)	12,365	89,562
Unamortized unrecognized portion of net obligation at transition			42,435	48,497
Unamortized prior service cost/(credit)	(23,911)	(29,216)	8,816	10,862
ACCRUED BENEFIT LIABILITY	\$ (35,112)	\$ (24,574)	\$ (441,488)	\$ (371,825)
Weighted-average assumptions used to determine benefit obligations as of June 30:				
Discount rate	6.25%	5.25%	6.25%	5.25%
Rate of compensation increase	4.00%	4.00%	N/A	N/A

For measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2007, decreasing gradually to a 5.0% annual rate in 2010 and all years thereafter.

The following table summarizes the periodic (income)/cost for the University for fiscal 2006 and 2005 (in thousands of dollars):

	2006	2005	2006	2005
	Pension benefits		Other benefits	
Components of net periodic benefit (income)/cost:				
Service cost	\$ 14,580	\$ 12,783	\$ 27,724	\$ 19,369
Interest cost	33,135	34,462	29,039	26,554
Expected return on plan assets and reserves	(47,434)	(46,686)	(9,360)	(7,569)
Amortization of the:				
Unrecognized transition obligation			6,062	6,062
Recognized prior service (credit)/cost	(5,305)	(5,418)	2,046	2,046
Recognized actuarial (gain)/loss	1,254	(2,447)	4,602	980
Net periodic benefit (income)/cost	(3,770)	(7,306)	60,113	47,442
Investment return on invested reserves	14,308	5,108	22,289	18,951
TOTAL PERIODIC (INCOME)/COST	\$ 10,538	\$ (2,198)	\$ 82,402	\$ 66,393
Weighted-average assumptions used to determine the net periodic benefit (income)/cost for the years ended June 30:				
Discount rate	5.25%	6.25%	5.25%	6.25%
Expected return on plan assets for the year	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

Assumed health care trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point change in assumed health care trend

rates would have the following effects for fiscal 2006 and 2005 (in thousands of dollars):

	2006		2005	
	One percentage point decrease	One percentage point increase	One percentage point decrease	One percentage point increase
Effect on total of service cost and interest cost components	\$ (10,758)	\$ 14,270	\$ (8,051)	\$ 10,522
Effect on the postretirement benefit obligation	(75,385)	95,979	(71,540)	89,878

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

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

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

The actual asset allocation of the investment portfolio for the pension plan for fiscal 2006 and 2005 along with target allocations for 2007 are as follows:

	2007 Target	2006 Actual	2005 Actual
Asset allocation by category for the pension plan:			
Equity securities	49.0%	53.3%	50.3%
Debt securities	20.0	20.4	20.1
Real estate	9.0	9.6	8.6
Other	22.0	16.7	21.0
TOTAL OF ALL ASSET CATEGORIES	100.0%	100.0%	100.0%

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was signed into law in December 2003. The Act provides certain prescription drug-related benefits for retirees, as well as subsidies for employers providing actuarially equivalent subsidies to their retirees. The University believes that benefits provided to applicable participants will be at least actuarially equivalent to Medicare Part D and, accordingly, the University will be entitled to the Medicare Part D subsidy.

In May 2004, the FASB issued Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003* ("FSP 106-2"). FSP 106-2 requires that the effects of the federal subsidy be considered an actuarial

gain that is recognized in the same manner as other actuarial gains and losses. It also requires that employers who sponsor postretirement health care plans that provide prescription drug benefits make certain disclosures.

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

The following table summarizes the expected benefit payments and Medicare Part D subsidies for the University (in thousands of dollars):

Fiscal year	Expected benefit payments		Expected Medicare Part D subsidies
	Pension	Other	
2007	\$ 34,803	\$ 19,607	\$ 2,452
2008	35,417	21,209	2,671
2009	36,131	22,739	2,876
2010	36,970	24,117	3,075
2011	37,623	25,480	3,260
2012-2016	203,071	149,513	19,885

12. GENERAL OPERATING ACCOUNT

The General Operating Account (GOA) consists of the general or current funds of the University as well as the assets, liabilities, and obligations related to student and faculty loans and facilities. The GOA accepts, manages, and pays interest on deposits made by University departments, invests surplus working capital, makes loans, and arranges external financing for major capital projects. It is used to manage, control, and execute all University financial

transactions, except for those related to investment activities conducted by HMC.

The major components of the GOA net asset balances as of June 30, 2006 and 2005 are summarized as follows (in thousands of dollars):

	2006			2005
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Departmental balances:				
Unexpended endowment income	\$ 123,500	\$ 586,504		\$ 710,004
Unexpended gift balances	67,493	221,560		289,053
Pledge balances		212,706		212,706
Interests in trusts held by others		21,174		21,174
Loan funds	31,709		\$ 84,254	115,963
Funds for construction		17,756		17,756
Funds invested in fixed assets	1,229,612			1,229,612
Other departmental purposes	331,391			331,391
Total departmental balances	1,783,705	1,059,700	84,254	2,927,659
University balances	2,095,733	92,680		2,188,413
TOTAL GOA NET ASSET BALANCES	\$ 3,879,438	\$ 1,152,380	\$ 84,254	\$ 5,116,072
				\$ 4,197,594

13. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2006 and 2005 is summarized as follows (in thousands of dollars):

	2006	2005
Scholarships and other student awards:		
Scholarships applied to student income	\$ 205,957	\$ 189,000
Scholarships and other student awards paid directly to students	99,574	94,116
Total scholarships and other student awards	305,531	283,116
Student employment	59,260	56,722
Student loans	30,315	26,189
Agency financial aid*	13,948	13,740
TOTAL STUDENT FINANCIAL AID	\$ 409,054	\$ 379,767

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

Approximately 65% of total scholarships and other student awards were funded by gifts, endowment income, and sponsored support in both fiscal 2006 and 2005.

14. SPONSORED RESEARCH

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored research to the University were \$518.0 million and \$511.1 million in fiscal 2006 and 2005, respectively. For the years ended June 30, 2006 and 2005, approximately 95% of federal research support was received by the Medical School, the School of Public Health, and the Faculty of Arts and Sciences. The University's principal source of federal research funds is the Department of Health and Human Services. The University also has many non-federal sources of sponsored awards and grants, including corporations, foundations, state and local governments, foreign governments, and research institutes.

Research grants and contracts normally provide for the recovery of direct and indirect costs. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government and other sponsors. A predetermined federal indirect cost rate has been established for the University Area through fiscal 2010. The Medical School (including the School of Dental Medicine) and School of Public Health have submitted indirect cost rate proposals for the period beginning July 1, 2006; these rates were under review by the Department of Health and Human Services as of June 30, 2006. Funds received for federally sponsored research activity are subject to audit.

15. GIFTS

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

Gifts for the years ended June 30, 2006 and 2005 are summarized as follows (in thousands of dollars):

	2006	2005
Gifts for current use	\$ 201,946	\$ 187,772
Non-federal sponsored research grants	80,792	78,442
Gifts for capital:		
Endowment funds	273,381	285,659
Split interest agreements*	23,562	27,566
Loan funds and facilities	16,150	11,237
Total gifts for capital	313,093	324,462
TOTAL GIFTS	\$ 595,831	\$ 590,676

* Shown at net present value.

16. OTHER OPERATING INCOME

The major components of other operating income for the years ended June 30, 2006 and 2005 were as follows (in thousands of dollars):

	2006	2005
Publications	\$ 80,819	\$ 75,445
Rental and parking	112,629	93,389
Royalties from patents, copyrights, and trademarks	65,819	57,818
Other student income	21,181	24,413
Nonstudent health and clinic fees	23,981	23,409
Sales income	46,147	40,069
Services income	50,116	45,842
Other	53,173	55,309
TOTAL OTHER OPERATING INCOME	\$ 453,865	\$ 415,694

17. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2006 and 2005 were as follows (in thousands of dollars):

	2006	2005
Services purchased	\$ 345,780	\$ 274,355
Subcontract expenses		
under sponsored projects	87,390	83,441
Travel	60,315	53,532
Publishing	44,580	39,392
Telephone	11,032	10,777
Interest	28,272	16,262
Taxes and fees	21,128	21,621
Advertising	26,045	21,249
Postage	13,921	14,535
Other	24,491	21,722
TOTAL OTHER EXPENSES	\$ 662,954	\$ 556,886

18. FUNCTIONAL CLASSIFICATION OF EXPENSES

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

Expenses by functional classification for the years ended June 30, 2006 and 2005 were as follows (in thousands of dollars):

	2006	2005
Instruction	\$ 788,716	\$ 754,267
Research	564,328	545,198
Libraries	182,806	175,513
Academic support	362,605	290,561
Scholarships and other student awards	99,574	94,116
Student services	100,940	110,179
Institutional support	551,168	463,753
Auxiliary services	349,366	323,786
TOTAL EXPENSES	\$ 2,999,503	\$ 2,757,373

19. COMMITMENTS AND CONTINGENCIES

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

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

In connection with the founding of the Broad Institute, the University and MIT agreed to strive to jointly raise \$20.0 million per year in gifts and non-federal grants and awards to support the Broad Institute’s endeavors. In the event this fundraising goal is not reached, the University has agreed to provide MIT with a portion of the shortfall, subject to certain conditions. The University will make payments and record the corresponding expenses as these conditions are met. The University’s obligation for such payments will not exceed \$32.5 million over the initial five-year term, or \$60.0 million in total if the term is extended for a second five years. The University had a commitment of \$9.0 million and \$4.0 million as of June 30, 2006 and 2005, respectively, which was recorded as “Accounts payable” in the *Balance Sheets*.

The University and MIT will equally share certain laboratory construction fit-out costs for the Broad Institute’s new building, which was initially occupied in February 2006. The University’s portion of these costs is limited to \$13.0 million. Payments to MIT under this commitment totaled

\$6.8 million in fiscal 2006. There were no such payments in fiscal 2005. If the University’s participation in the collaboration terminates under certain circumstances, the University may also be obligated to pay MIT up to \$5.0 million to compensate MIT for expenses incurred in connection with the lease for the new building. In addition, the University expects to share with MIT in ongoing facilities improvement costs of approximately \$4.0 million per year for up to ten years. Payments to MIT under this commitment totaled \$2.8 million in fiscal 2006. There were no such payments in fiscal 2005. Some of the University’s contributions to the fit-out and ongoing capital costs have been and will continue to be reimbursed in the future through indirect cost recoveries associated with the Broad Institute’s grant funding.

The University is a defendant in various other legal actions arising out of the normal course of its operations. While it is not possible to predict accurately or determine the eventual outcome of such actions, the University believes that the outcome of these proceedings will not have a material adverse effect on the University’s financial position, changes in net assets, or cash flows.



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To the Board of Overseers of Harvard College:

In our opinion, the accompanying Balance Sheet and the related Statements of Changes in Net Assets with General Operating Account Detail, Changes in Net Assets of the Endowment, and Cash Flows, present fairly, in all material respects, the financial position of Harvard University (the "University") as of June 30, 2006, and the changes in its net assets of the General Operating Account and endowment funds and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's fiscal 2005 financial statements, and in our report dated October 11, 2005, we expressed an unqualified opinion on these financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, as of June 30, 2006 the University adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*. Also, as discussed in Note 2, effective July 1, 2004, the University changed its policy of accounting for cash, cash equivalents, and working capital investments.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over the printed name of the firm.

October 6, 2006



SUPPLEMENTAL INFORMATION

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FOR THE MAJOR ACADEMIC UNITS

GUND HALL SUSTAINABILITY PROJECT, GRADUATE SCHOOL OF DESIGN

Environmental sustainability is an important goal for the University. The Graduate School of Design (GSD), like many of the University's Schools and departments, is actively researching potential sustainable building projects. In fiscal 2006, GSD professors and students installed environmentally friendly roofing materials at Gund Hall, becoming one of the first "green roof" pilot sites at the University. The soil and plants are intended to absorb rainwater and pollutants. Similar projects are being funded across the University by the Green

Campus Loan Fund (GCLF). In fiscal 2006, the GCLF funded 31 projects aimed at reducing the University's environmental impact. In fiscal 2006, the University registered its 13th building for certification from the U.S. Green Building Council and received a Green Power Partnership Award from the EPA for its renewable energy program. From recycling to purchasing renewable energy credits, using rainwater for cleaning shuttle buses to sustainable building projects, the University is striving to shrink its environmental footprint.

Gifts for Current Use

for the year ended June 30, 2006

<i>In thousands of dollars</i>	Gifts for current use	Non-federal sponsored research grants
MAJOR ACADEMIC UNITS:		
Faculty of Arts and Sciences	\$ 64,488	\$ 19,676
Business School	18,718	
School of Dental Medicine	1,327	43
School of Design	2,547	155
Divinity School	665	249
School of Education	4,630	3,739
Kennedy School of Government	21,988	7,349
Law School	16,699	4,362
Medical School	18,178	17,875
School of Public Health	7,241	24,697
Radcliffe Institute for Advanced Study	2,566	
University Science Initiatives	21,000	
TOTAL MAJOR ACADEMIC UNITS	180,047	78,145
OTHER ACADEMIC DEPARTMENTS:		
Arnold Arboretum	303	
Harvard University Art Museums	3,891	
Joint Center for Housing Studies	1,609	1,097
Nieman Foundation	186	450
Villa I Tatti	781	50
TOTAL OTHER ACADEMIC DEPARTMENTS	6,770	1,597
SERVICE DEPARTMENTS:		
University Health Services	11	
TOTAL SERVICE DEPARTMENTS	11	0
CENTRAL ADMINISTRATION:		
Memorial Church	533	
President's Initiatives	13,774	
University Library	34	1,050
University Unrestricted	777	
TOTAL CENTRAL ADMINISTRATION	15,118	1,050
TOTAL GIFTS FOR CURRENT USE	\$ 201,946	\$ 80,792

Gifts for Capital

for the year ended June 30, 2006

<i>In thousands of dollars</i>	Endowment gifts	Facilities gifts	Loan fund gifts	Total
MAJOR ACADEMIC UNITS:				
Faculty of Arts and Sciences	\$ 87,849	\$ 6,058	\$ 12	\$ 93,919
Business School	30,674	6,438	37	37,149
School of Dental Medicine	4,223	356		4,579
School of Design	483			483
Divinity School	3,972			3,972
School of Education	271	667		938
Kennedy School of Government	20,664			20,664
Law School	12,259	350	121	12,730
Medical School	47,448	318	376	48,142
School of Public Health	6,115			6,115
Radcliffe Institute for Advanced Study	8,259	32		8,291
University Science Initiatives	5,065			5,065
TOTAL MAJOR ACADEMIC UNITS	227,282	14,219	546	242,047
OTHER ACADEMIC DEPARTMENTS:				
Arnold Arboretum	2,069			2,069
Harvard University Art Museums	17,110	125		17,235
Nieman Foundation	799	543		1,342
Villa I Tatti	2,449	717		3,166
TOTAL OTHER ACADEMIC DEPARTMENTS	22,427	1,385	0	23,812
SERVICE DEPARTMENTS:				
Harvard University Press	4			4
University Health Services	13			13
TOTAL SERVICE DEPARTMENTS	17	0	0	17
CENTRAL ADMINISTRATION:				
Memorial Church	383			383
President's Initiatives	22,804			22,804
University Library	292			292
University Unrestricted	176			176
TOTAL CENTRAL ADMINISTRATION	23,655	0	0	23,655
TOTAL ENDOWMENT, FACILITIES, AND LOAN FUND GIFTS	\$ 273,381	\$ 15,604	\$ 546	289,531
SPLIT INTEREST AGREEMENT GIFTS:				
Charitable Remainder Annuities and Unitrusts				17,376
Charitable Gift Annuities				5,780
Harvard Balanced Fund				197
Harvard Growth Fund				102
Harvard Life Return Fund				107
TOTAL SPLIT INTEREST AGREEMENT GIFTS*				23,562
TOTAL GIFTS FOR CAPITAL				\$ 313,093

* Shown at net present value.

Endowment Funds by Department

for the year ended June 30, 2006

Dollar amounts in thousands

Endowment principal

	Book value July 1, 2005	Gifts and other changes	Book value June 30, 2006	Market value June 30, 2006	Participating units June 30, 2006
MAJOR ACADEMIC UNITS:					
Faculty of Arts and Sciences	\$ 2,589,289	\$ 156,476	\$ 2,745,765	\$ 13,228,349	8,079,016
Business School	689,357	45,019	734,376	2,190,442	1,332,492
School of Dental Medicine	29,813	4,279	34,092	181,704	111,131
School of Design	60,348	523	60,871	358,613	219,329
Divinity School	79,116	9,410	88,526	517,453	316,476
School of Education	95,397	2,542	97,939	436,859	267,185
Kennedy School of Government	225,379	21,804	247,183	876,171	531,497
Law School	332,787	19,272	352,059	1,445,077	883,581
Medical School	843,880	106,940	950,820	3,363,899	2,056,842
School of Public Health	167,737	30,316	198,053	979,870	599,292
Radcliffe Institute for Advanced Study	210,091	20,674	230,765	472,816	289,176
University Science Initiatives	0	5,065	5,065	5,123	3,133
TOTAL MAJOR ACADEMIC UNITS	5,323,194	422,320	5,745,514	24,056,376	14,689,150
OTHER ACADEMIC DEPARTMENTS:					
Arnold Arboretum	43,976	3,391	47,367	252,741	154,577
Harvard University Art Museums	107,057	17,762	124,819	543,208	330,730
Joint Center for Housing Studies	0		0		
Nieman Foundation	14,989	2,000	16,989	116,233	71,089
Villa I Tatti	50,038	2,592	52,630	223,369	136,613
TOTAL OTHER ACADEMIC DEPARTMENTS	216,060	25,745	241,805	1,135,551	693,009
SERVICE DEPARTMENTS:					
Harvard University Press	19,745	5	19,750	86,047	52,626
University Health Services	7,994	24	8,018	41,207	25,203
University Operations Services	828	1	829	4,479	2,739
TOTAL SERVICE DEPARTMENTS	28,567	30	28,597	131,733	80,568
Central Administration	560,980	22,089	583,069	3,292,230	2,022,853
SUBTOTAL	6,128,801	470,184	6,598,985	28,615,890	17,485,580
Pledge balances	379,327	(75,603)	303,724	303,724	
Interests in trusts held by others	251,917	47,899	299,816	299,816	
TOTAL	\$ 6,760,045	\$ 442,480	\$ 7,202,525	\$ 29,219,430	17,485,580

	Endowment income				
	Unexpended income July 1, 2005	Investment income distributed	Other receipts and transfers	Fund income availed of	Unexpended income June 30, 2006
MAJOR ACADEMIC UNITS:					
Faculty of Arts and Sciences	\$ 97,729	\$ 396,941	\$ (38,370)	\$ (355,931)	\$ 100,369
Business School	425	67,846	1,971	(69,832)	410
School of Dental Medicine	924	5,385	(24)	(5,598)	687
School of Design	1,055	10,972	1,321	(12,254)	1,094
Divinity School	6,752	15,669	1,436	(16,928)	6,929
School of Education	4,258	13,220	1,109	(14,356)	4,231
Kennedy School of Government	12,404	25,949	4,419	(26,962)	15,810
Law School	9,413	43,139	95	(44,465)	8,182
Medical School	95,854	99,101	(24,073)	(84,266)	86,616
School of Public Health	35,014	29,654	(619)	(25,600)	38,449
Radcliffe Institute for Advanced Study	3,898	13,602	(1,589)	(12,328)	3,583
University Science Initiatives	0		250	(250)	0
TOTAL MAJOR ACADEMIC UNITS	267,726	721,478	(54,074)	(668,770)	266,360
OTHER ACADEMIC DEPARTMENTS:					
Arnold Arboretum	1,200	8,222	(175)	(8,566)	681
Harvard University Art Museums	5,855	15,981	(4,554)	(10,059)	7,223
Joint Center for Housing Studies	0		42	(42)	0
Nieman Foundation	1,900	3,554	(1,140)	(3,735)	579
Villa I Tatti	2,723	6,783	(520)	(5,787)	3,199
TOTAL OTHER ACADEMIC DEPARTMENTS	11,678	34,540	(6,347)	(28,189)	11,682
SERVICE DEPARTMENTS:					
Harvard University Press	1,608	3,035	7,524	(11,092)	1,075
University Health Services	144	1,145	(48)	(1,156)	85
University Operations Services	157	136	(131)		162
TOTAL SERVICE DEPARTMENTS	1,909	4,316	7,345	(12,248)	1,322
Central Administration	43,979	100,363	(42,776)	(52,119)	49,447
TOTAL	\$ 325,292	\$ 860,697	\$ (95,852)	\$ (761,326)	\$ 328,811

Endowment and Income Information for the Major Academic Units

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

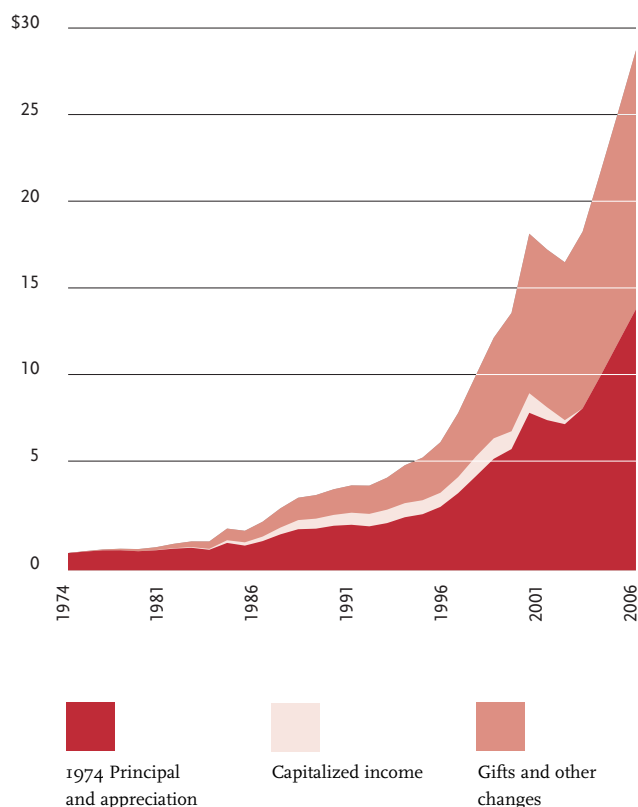
The endowment graphs display the growth since 1974 of the major components of the endowment: 1974 appreciated principal, capitalized income, and gifts

and other changes. To allow for comparability with years prior to fiscal 1995, endowment values exclude pledge balances and interests in trusts held by others.

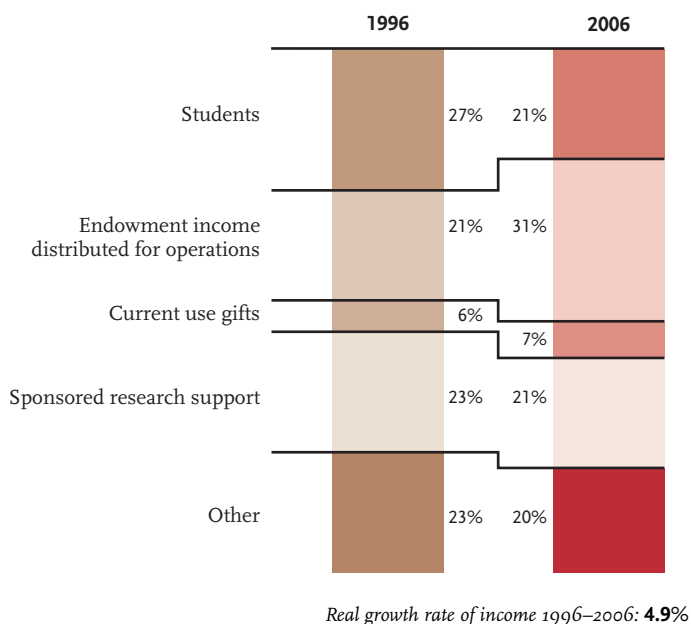
The sources of income charts show the major components of income in fiscal 1996 and 2006. Shown below each of these charts is the ten-year compound growth rate after inflation for total income.

UNIVERSITY

ENDOWMENT GROWTH (in billions of dollars)

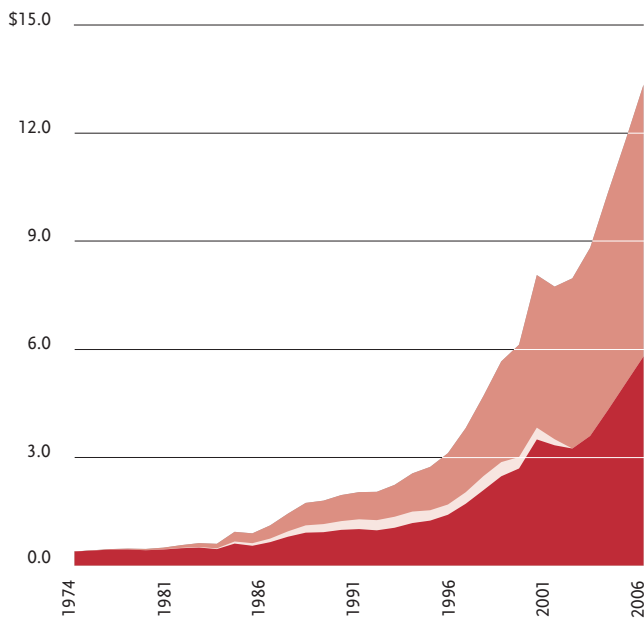


SOURCES OF INCOME (% of total)

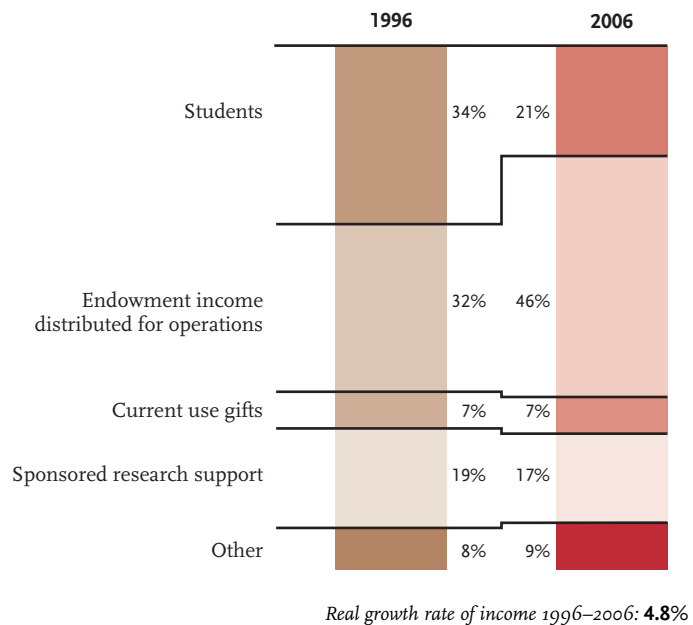


FACULTY OF ARTS AND SCIENCES

ENDOWMENT GROWTH (in billions of dollars)

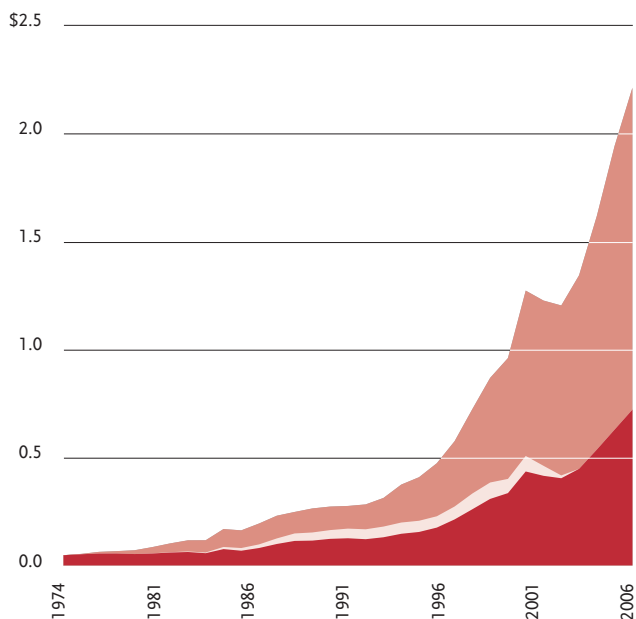


SOURCES OF INCOME (% of total)

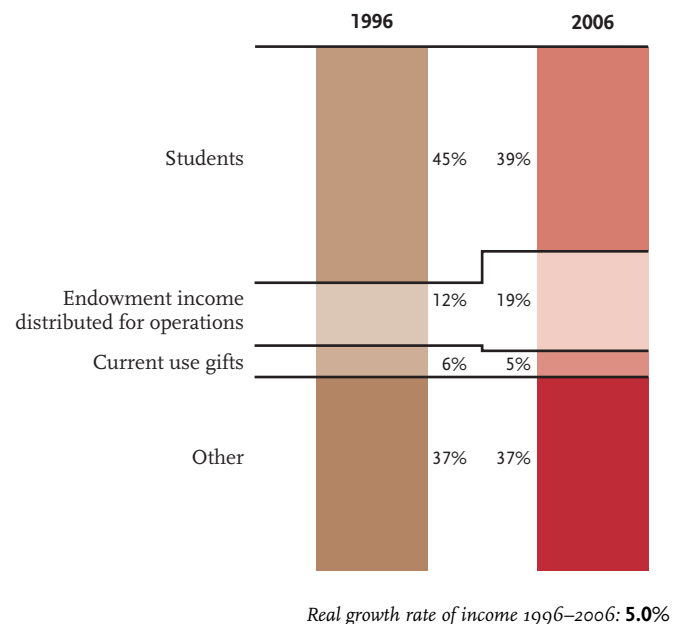


BUSINESS SCHOOL

ENDOWMENT GROWTH (in billions of dollars)

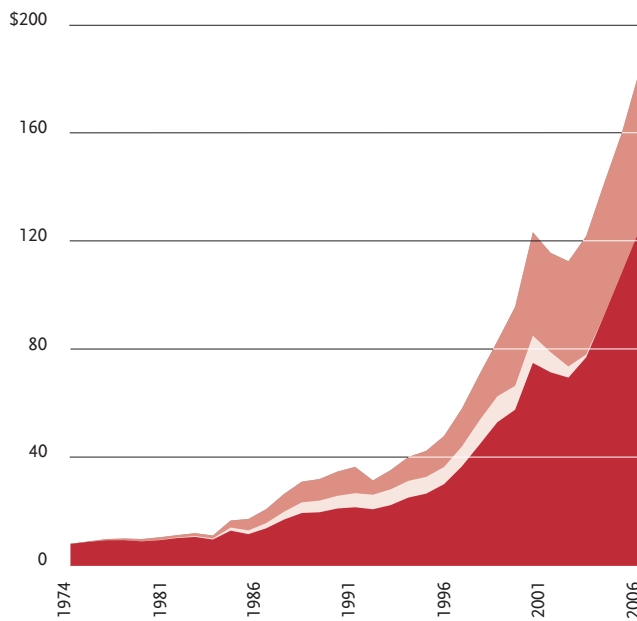


SOURCES OF INCOME (% of total)

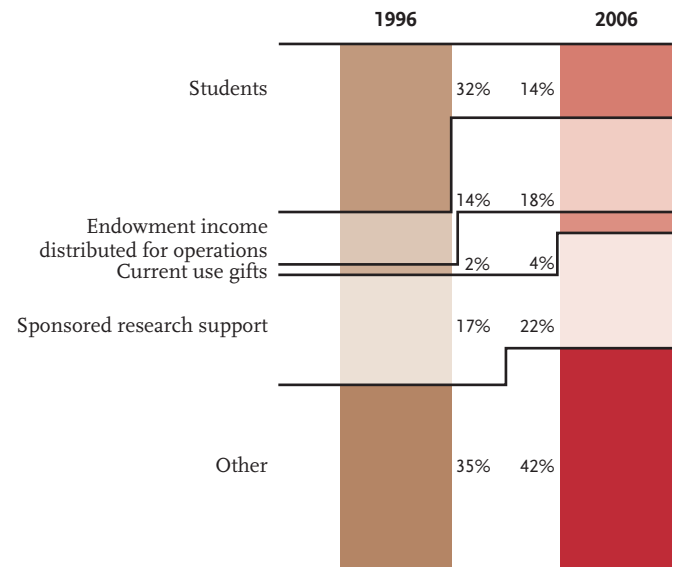


SCHOOL OF DENTAL MEDICINE

ENDOWMENT GROWTH (in millions of dollars)



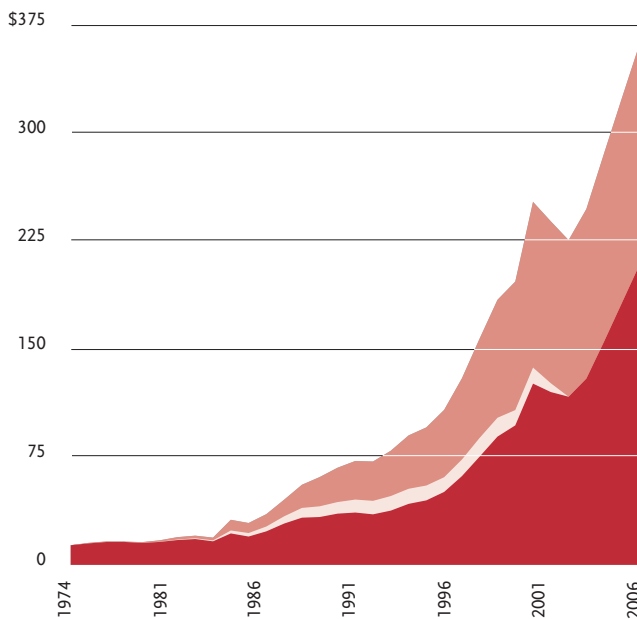
SOURCES OF INCOME (% of total)



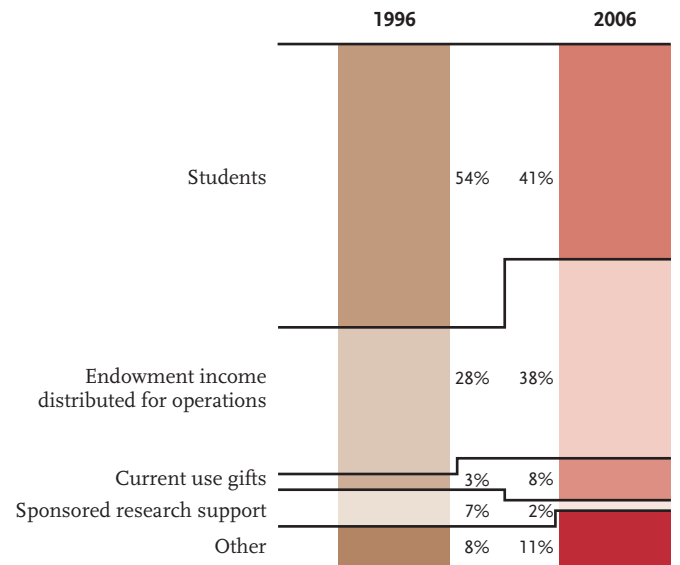
Real growth rate of income 1996–2006: **6.0%**

GRADUATE SCHOOL OF DESIGN

ENDOWMENT GROWTH (in millions of dollars)



SOURCES OF INCOME (% of total)

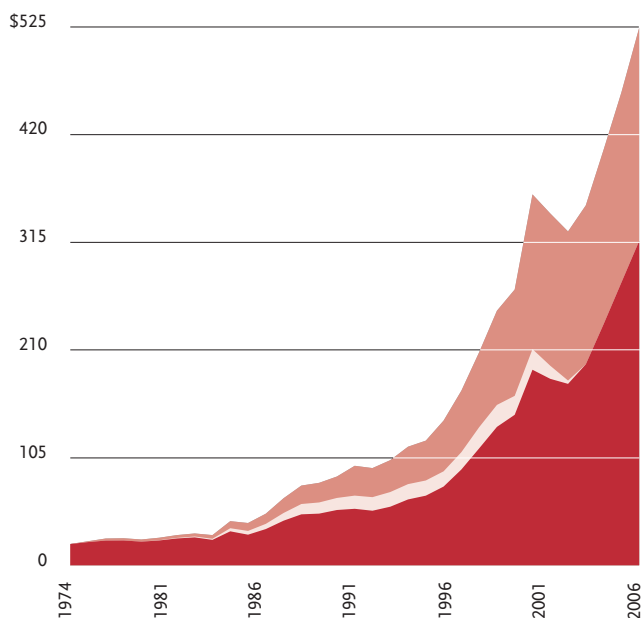


Real growth rate of income 1996–2006: **4.5%**

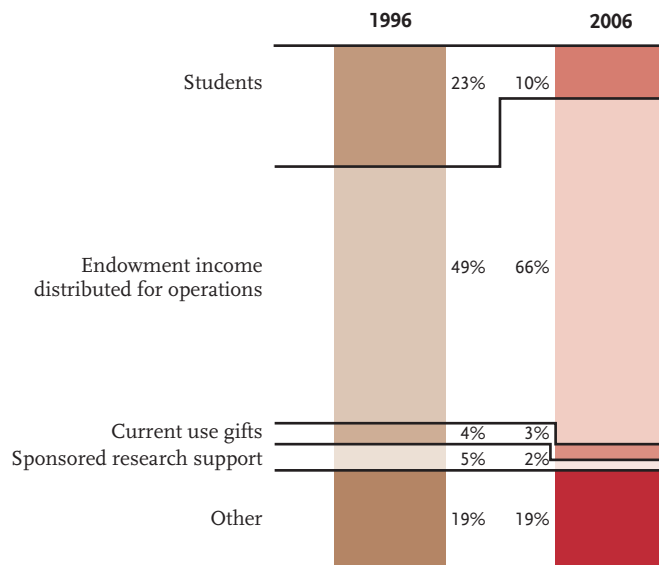


DIVINITY SCHOOL

ENDOWMENT GROWTH (in millions of dollars)



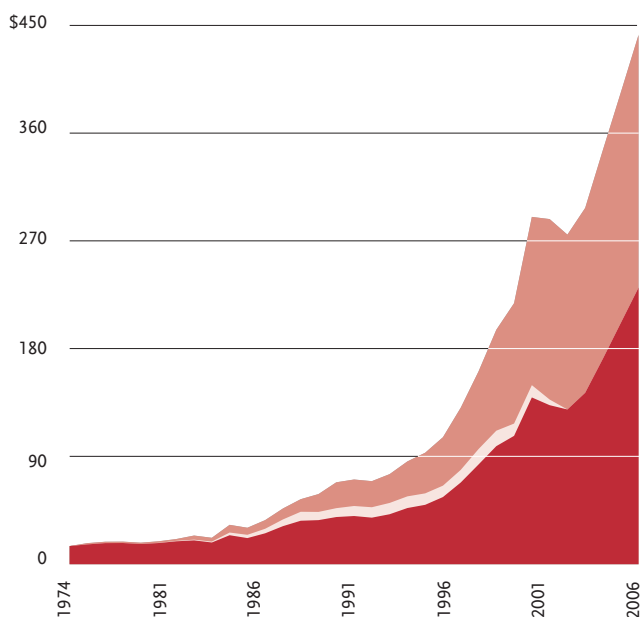
SOURCES OF INCOME (% of total)



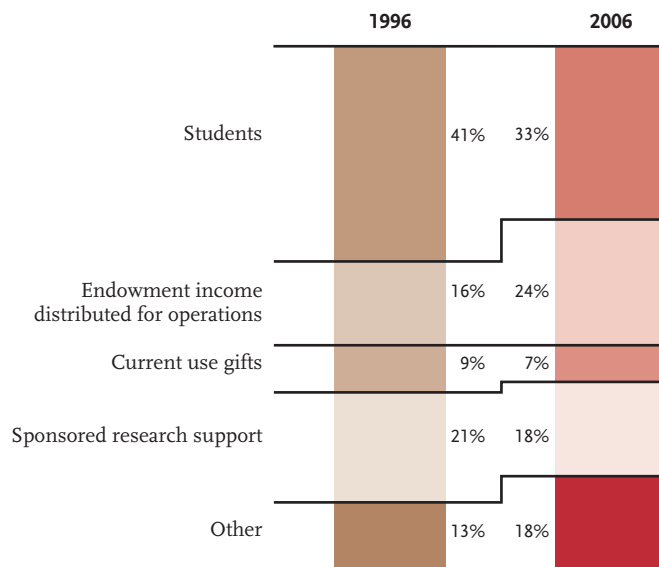
Real growth rate of income 1996–2006: 5.1%

GRADUATE SCHOOL OF EDUCATION

ENDOWMENT GROWTH (in millions of dollars)



SOURCES OF INCOME (% of total)

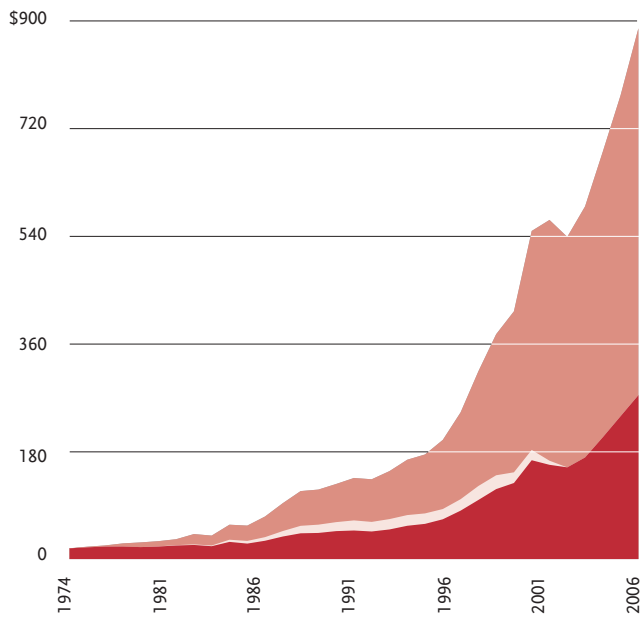


Real growth rate of income 1996–2006: 5.3%

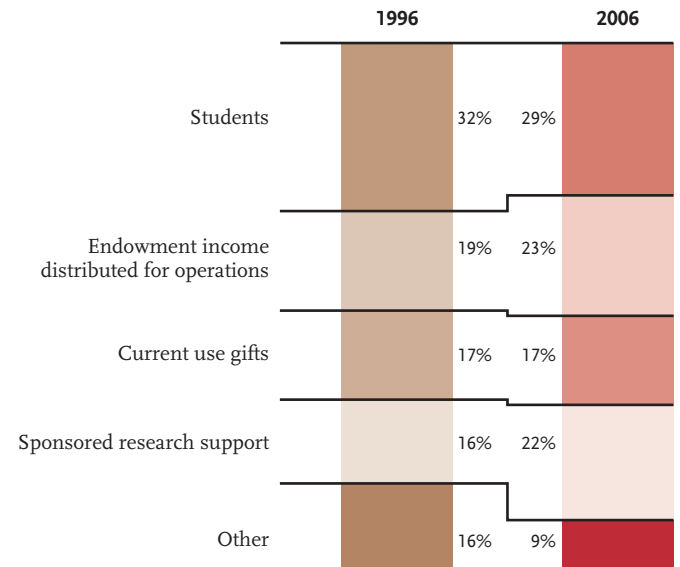


KENNEDY SCHOOL OF GOVERNMENT

ENDOWMENT GROWTH (in millions of dollars)



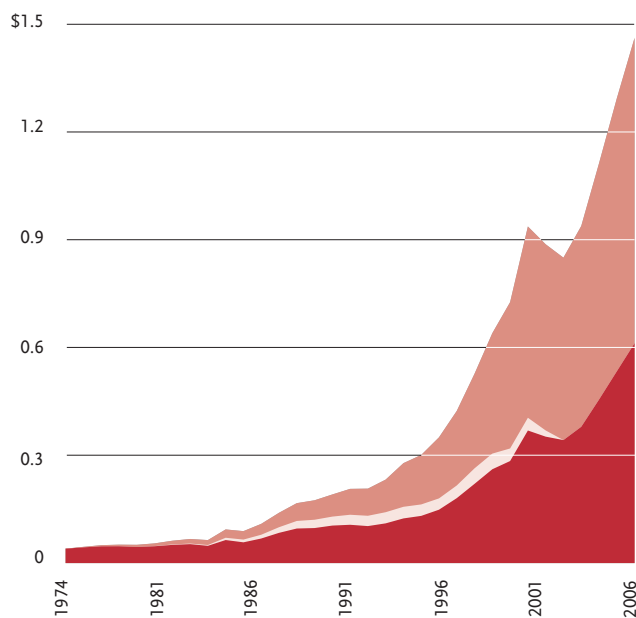
SOURCES OF INCOME (% of total)



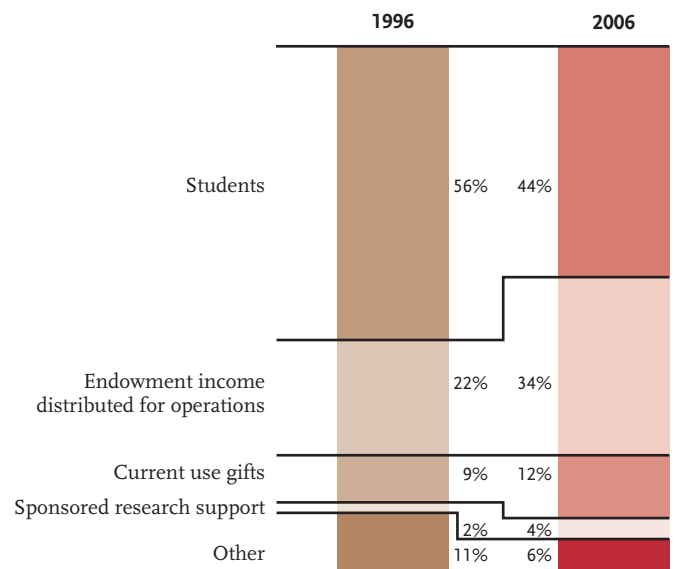
Real growth rate of income 1996–2006: **8.3%**

LAW SCHOOL

ENDOWMENT GROWTH (in billions of dollars)



SOURCES OF INCOME (% of total)

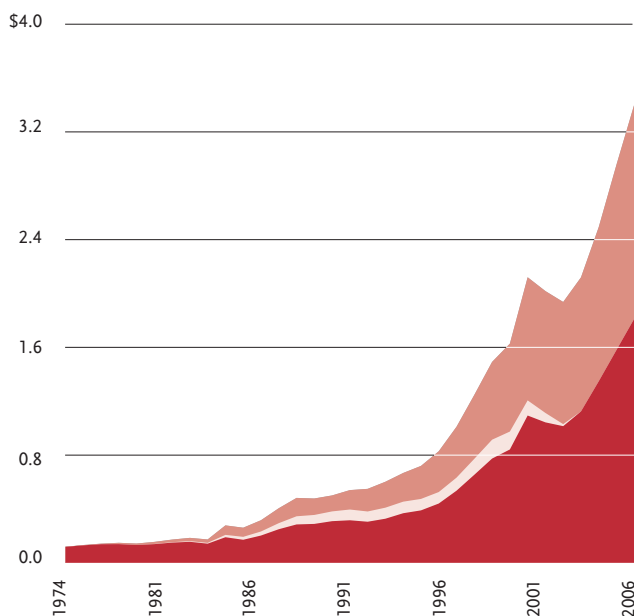


Real growth rate of income 1996–2006: **4.8%**

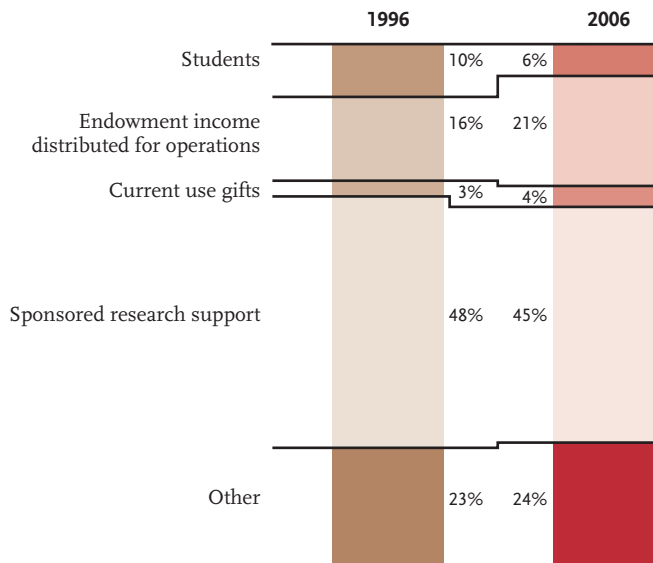


MEDICAL SCHOOL

ENDOWMENT GROWTH (in billions of dollars)



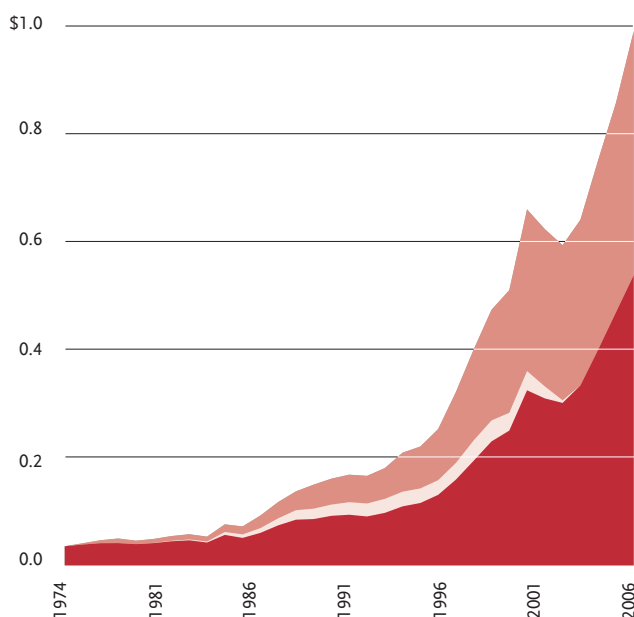
SOURCES OF INCOME (% of total)



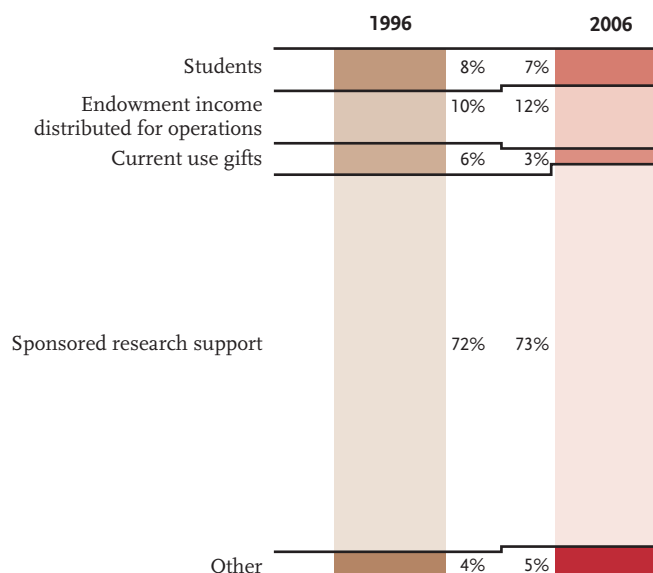
Real growth rate of income 1996–2006: **5.7%**

SCHOOL OF PUBLIC HEALTH

ENDOWMENT GROWTH (in billions of dollars)



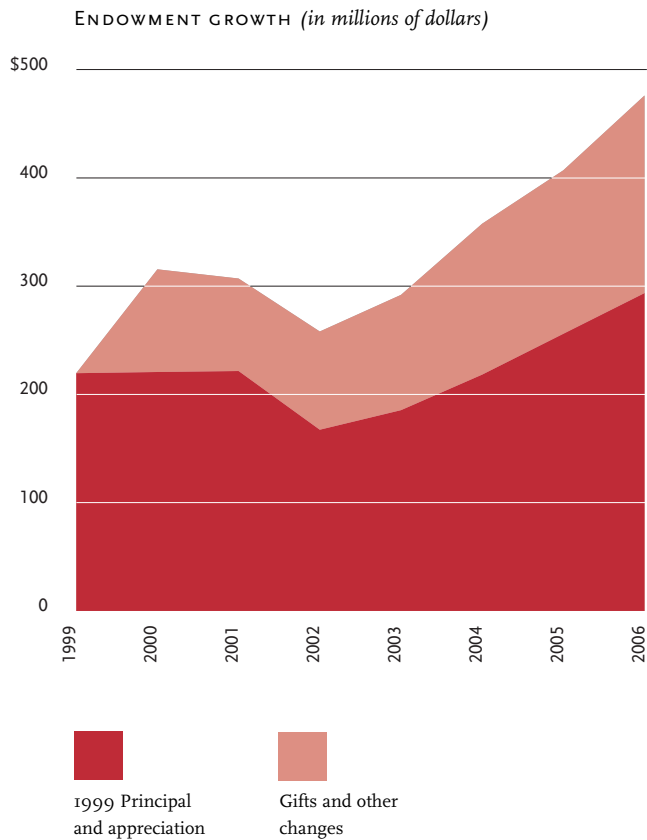
SOURCES OF INCOME (% of total)



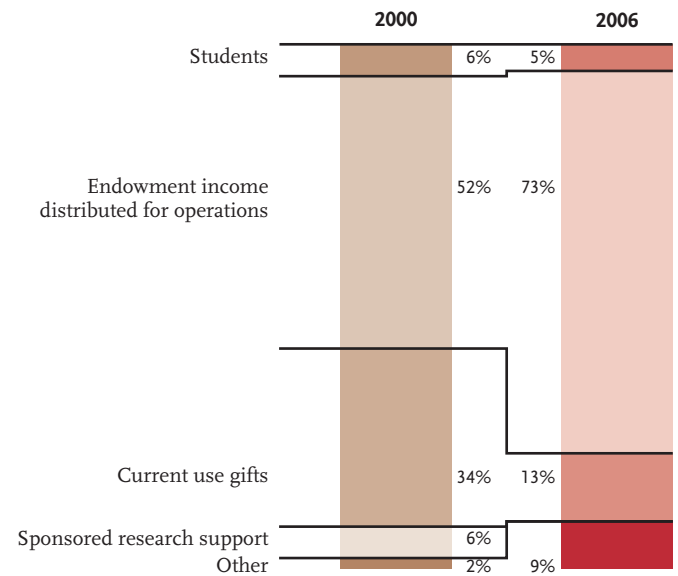
Real growth rate of income 1996–2006: **6.1%**



RADCLIFFE INSTITUTE FOR ADVANCED STUDY*



SOURCES OF INCOME (% of total)



Real growth rate of income 2000–2006: **(0.5)%**

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

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