

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



**\$1,000,000,000**  
**MASSACHUSETTS HEALTH AND EDUCATIONAL  
FACILITIES AUTHORITY REVENUE BONDS,  
HARVARD UNIVERSITY ISSUE, SERIES 2009A**

**Dated: Date of Delivery**

**Due: November 15, as shown on the inside cover**

The Bonds will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of the Bonds will be made in book-entry-only form. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds. The Bonds will be issued in minimum denominations of \$5,000 and whole multiples thereof. U.S. Bank National Association will act as Trustee.

Principal and semiannual interest on the Bonds will be paid by the Trustee. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest will be payable on May 15, 2009, and semiannually thereafter on each November 15 and May 15 to the Bondowners of record as of the close of business on the first day of the month of such interest payment date.

**The Bonds are subject to redemption prior to maturity as set forth in this Official Statement. See "THE BONDS—Redemption Provisions" herein.**

**The Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues of the Authority paid to the Trustee for the account of the Authority by the President and Fellows of Harvard College (the "Institution") in accordance with the provisions of the Loan and Trust Agreement, dated as of December 1, 2008 (the "Agreement"), among the Authority, the Institution and the Trustee. The payments pursuant to the Agreement are a general obligation of the Institution.**

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

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Institution by its counsel, Ropes & Gray LLP, Boston, Massachusetts, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on or about January 7, 2009.

**J.P. Morgan  
Goldman, Sachs & Co.  
Barclays Capital**

**Morgan Stanley  
Loop Capital Markets, LLC  
Citi**

**\$1,000,000,000**

**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY REVENUE  
BONDS, HARVARD UNIVERSITY ISSUE, SERIES 2009A**

<u>Due November 15,</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP Number**</u>
2014	\$ 5,000,000	4.000%	104.509	57586ECN9
2014	25,000,000	5.000	109.818	57586ECP4
2015	5,000,000	4.000	103.700	57586ECQ2
2015	25,000,000	5.000	109.771	57586ECR0
2016	5,000,000	4.000	102.230	57586ECS8
2016	25,000,000	5.000	109.000	57586ECT6
2017	5,000,000	4.000	100.143	57586ECU3
2017	25,000,000	5.000	107.544	57586ECV1
2018	5,000,000	4.200	99.915	57586ECW9
2018	25,000,000	5.000	106.313	57586ECX7
2019*	30,000,000	5.250	105.993	57586ECY5
2020*	30,000,000	5.250	104.212	57586ECZ2
2021*	30,000,000	5.250	103.098	57586EDA6
2022*	30,000,000	5.250	102.076	57586EDB4
2023*	30,000,000	5.250	101.453	57586EDC2

**TERM BONDS**

\$700,000,000 5.500% Series 2009A Bonds due November 15, 2036 – Price 95.871 CUSIP: 57586EDD0\*\*

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\* Priced to call at par on the first call date of November 15, 2018.

\*\* The CUSIP numbers have been assigned by an independent company not affiliated with the Institution and are included solely for the convenience of the owners of the Bonds. None of the Authority, the Institution, the Trustee or the Underwriters is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

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

No dealer, broker, salesman or other person has been authorized by the Massachusetts Health and Educational Facilities Authority, the President and Fellows of Harvard College or the Underwriters to give any information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the President and Fellows of Harvard College and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Massachusetts Health and Educational Facilities Authority or the Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

**TABLE OF CONTENTS**

INTRODUCTION .....	1	
SOURCES OF PAYMENT AND SECURITY FOR THE BONDS.....	2	
THE AUTHORITY .....	2	
THE BONDS .....	6	
PLAN OF FINANCING.....	11	
ESTIMATED SOURCES AND USES OF FUNDS .....	11	
RATINGS .....	12	
UNDERWRITING .....	12	
CONTINUING DISCLOSURE.....	12	
TAX EXEMPTION .....	13	
LEGALITY OF BONDS FOR INVESTMENT AND DEPOSIT.....	14	
COMMONWEALTH OF MASSACHUSETTS NOT LIABLE ON BONDS .....	15	
LEGAL MATTERS.....	15	
INDEPENDENT ACCOUNTANTS .....	15	
MISCELLANEOUS .....	15	
APPENDIX A	CERTAIN INFORMATION CONCERNING THE INSTITUTION .....	A-1
APPENDIX B	HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2008 ....	B-1
APPENDIX C	DEFINITIONS AND SUMMARY OF THE LOAN AND TRUST AGREEMENT .....	C-1
APPENDIX D	PROPOSED FORM OF BOND COUNSEL OPINION.....	D-1
APPENDIX E	FORM OF CONTINUING DISCLOSURE AGREEMENT .....	E-1

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**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY**

99 SUMMER STREET, BOSTON, MASSACHUSETTS 02110

ALLEN R. LARSON, *Chairman*  
MARVIN A. GORDON, *Vice Chairman*  
CHRISTINE C. SCHUSTER, *Secretary*  
MARK P. BILOTTA

JACQUELINE J. CONRAD  
MICHAEL P. MONAHAN  
TIMOTHY O'CONNOR  
ROBERT M. PLATT

BENSON T. CASWELL, Executive Director

**OFFICIAL STATEMENT**

**Relating to**

**\$1,000,000,000**  
**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY**  
**REVENUE BONDS, HARVARD UNIVERSITY ISSUE,**  
**SERIES 2009A**

**INTRODUCTION**

Purpose of this Official Statement

The purpose of this Official Statement is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series 2009A (the "Bonds"), authorized by the Loan and Trust Agreement dated as of December 1, 2008 (the "Agreement") by and among the Massachusetts Health and Educational Facilities Authority (the "Authority"), the President and Fellows of Harvard College (the "Institution") and U.S. Bank National Association, as Trustee (the "Trustee"). The Bonds are secured in accordance with the provisions of the Agreement and the provisions of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (the "Act"). The information contained in this Official Statement is provided for use in connection with the sale of the Bonds. The definitions of certain terms used and not otherwise defined herein are contained in Appendix C – "DEFINITIONS AND SUMMARY OF THE LOAN AND TRUST AGREEMENT."

Plan of Financing

A portion of the proceeds of the Bonds in the amount of \$431,735,000 will be applied to redeem, within ninety (90) days of the issuance of the Bonds, all of the Series 2006B-1, Series 2006B-2 and Series GG-1 variable rate tax-exempt bonds issued by the Authority on behalf of the Institution. The remaining portion of the proceeds of the Bonds will (1) pay at maturity \$450,130,000 of the Series EE tax-exempt commercial paper notes issued by the Authority on behalf of the Institution, (2) be used for other eligible corporate purposes of the Institution, including payments to be made by the Institution to terminate certain interest rate swap agreements, and (3) pay costs of issuance of the Bonds. See "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES" herein.

## SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

The Agreement provides that, to the extent permitted by law, the obligation of the Institution to make the payments thereunder is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. The Agreement also provides, among other things, that the Institution shall make payments to the Trustee equal to principal and interest on the Bonds and certain other payments required by the Agreement. The obligation of the Institution to make payments under the Agreement is unsecured.

The Bonds shall be special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the Agreement, the moneys received by the Trustee for the account of the Authority pursuant to the Agreement.

Under the Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (i) all Revenues to be received from the Institution or derived from any security provided thereunder, and (ii) all rights to receive such Revenues and the proceeds of such rights. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues is valid and binding from the time when such pledge is made and the Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof.

The assignment and pledge by the Authority does not include (i) the rights of the Authority pursuant to provisions of the Agreement for consent, concurrence, approval or other action by the Authority, notice to the Authority, or the filing of reports, certificates or other documents with the Authority, or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions thereof.

### Acceleration

The Trustee may declare all of the Bonds immediately due and payable prior to maturity at par, plus accrued interest upon an Event of Default as defined in the Agreement. See Appendix C — “DEFINITIONS AND SUMMARY OF THE LOAN AND TRUST AGREEMENT—Events of Default.”

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

## THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the “Commonwealth”) organized and existing under and by virtue of the Act. The purpose of the Authority, as stated in the Act, is essentially to provide assistance for public and private

nonprofit institutions for higher education, private nonprofit schools for the handicapped, nonprofit hospitals and their nonprofit affiliates, nonprofit nursing homes and nonprofit cultural institutions in the construction, financing, and refinancing of projects to be undertaken in relation to programs for such institutions.

#### Authority Membership and Organization

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

The members of the Authority are as follows:

**ALLEN R. LARSON**, Chairman; term as Member expires July 1, 2014.

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

**MARVIN A. GORDON**, Vice Chairman; term as Member expires July 1, 2010.

Mr. Gordon, a resident of Milton, is Chairman of the Board and Chief Executive Officer of Gordon Logistics, L.L.C. in Mansfield, Massachusetts. From 1974 to 2001, Mr. Gordon was Chief Executive Officer and Chairman of Whitehall Co. Ltd. of Norwood, Massachusetts. From 1994 to 1996, Mr. Gordon served on the Board of Directors to Techniek Development Co. of San Diego, California. He also served as Chairman of the Board of US Trust Norfolk (Milton Bank and Trust) from 1974 to 1976 and as Vice President and Member of the Executive Committee from 1971 to 1974. Mr. Gordon has been actively engaged in non-profit, charitable and civic activities. His present affiliations include Board Member and Chairman of the Audit and Compliance Committee of The Milton Hospital Foundation, Inc. and Board Member of Milton Hospital, Inc., and President of Milton Fuller Housing Corporation. Mr. Gordon has been elected to and appointed to a number of public boards including serving as a Milton Selectman from 1986 to 1993 and belongs to several civic associations. Mr. Gordon holds a degree from Harvard College and Harvard Business School.

**CHRISTINE C. SCHUSTER**, Secretary; term as Member expires July 1, 2013.

Ms. Schuster, a resident of Sudbury, is President and Chief Executive Officer of Emerson Health System located in Concord. Ms. Schuster formerly held the position of President and Chief Executive Officer of Quincy Medical Center. She is a Member of the Board of Trustees of the South Shore Chamber of Commerce where she serves as Vice Chairman of Government Affairs; and is a Member of the Board of Trustees of the Massachusetts Hospital Association (“MHA”) where she serves as the MHA

Chair of the Clinical Issues Advisory Council which provides advice and counsel to the MHA on key medical, clinical, and public policy issues. She also serves on the American Hospital Association Regional Policy Board. Ms. Schuster was recognized by Modern Healthcare magazine and Witt Kieffer Associates as one of the Year 2000 “Up and Comers Award” recipients. She is a frequent speaker both locally and nationally on a wide variety of healthcare topics. Ms. Schuster received an M.B.A. with Honors from the University of Chicago Graduate School of Business and a B.S. in Nursing from Boston University.

**MARK P. BILOTTA**; term as Member expires July 1, 2013.

Mr. Bilotta, a resident of Worcester, is the Chief Executive Officer of the Colleges of Worcester Consortium in Worcester, Massachusetts, a non-profit association of thirteen central Massachusetts-based colleges and universities providing academic and member services, higher education access services and promoting community and economic development partnerships. From 1999 to 2006, Mr. Bilotta was the Executive Assistant to the President of Assumption College in Worcester, Massachusetts. He held the position of Associate Director of Admissions for Enrollment and Marketing at Worcester State College from 1996 to 1998. From 1990 to 1991 he was a Graduate Assistant at Clark University. During the period of 1984 to 1989 he held the positions of Admissions Counselor, Assistant Director of Admissions, and Associate Director of Admissions at the College of the Holy Cross in Worcester, Massachusetts. Mr. Bilotta has been actively engaged in several non-profit, charitable and civic activities. He presently serves as Chairman of the Board of Directors for the United Way of Central Massachusetts; Board of Directors to the Worcester Regional Research Bureau; Destination Worcester; Board of Trustees to Spectrum Health Systems, Inc.; and Corporator, Webster Five Cents Savings Bank. Mr. Bilotta holds a B.A. from College of the Holy Cross, Worcester, and an M.B.A. from Clark University.

**JACQUELINE J. CONRAD**; term as Member expires July 1, 2010.

Ms. Conrad, a resident of Milton, is the Founder of delaCruz Communications in Stoughton, Massachusetts, a multicultural consulting firm that specializes in cause-related health awareness and strategic marketing campaigns for ethnic audiences, such as the African American and Latino communities. In addition, she is the Executive Director of the Latino Professional Network, one of Boston’s premier networking associations that creates career, educational and social opportunities for Latino professionals. Ms. Conrad is a sought after speaker at business roundtables and leadership seminars, on subjects ranging from Hispanic marketing and urban entrepreneurship, to home ownership and property investments. Her present affiliations and memberships include Advisory Board Member to the Latino After School Initiative, and Vice President of the Christian Economic Development Association, Inc. Ms. Conrad has served as Advisory Board Member to the Women of Ethnic Diversity Initiative, Advisory Committee Member to Senator John Kerry’s Committee on Child Care and Small Business, Board of Directors of the Simmons Club, and Member of the Hispanic American Chamber of Commerce. Ms. Conrad holds a B.A. degree in Sociology from Suffolk University and an M.A. degree from Simmons College.

**MICHAEL P. MONAHAN**; term as Member expires July 1, 2011.

Mr. Monahan, a resident of South Boston, is Business Manager of the International Brotherhood of Electrical Workers, Local 103, Boston, Massachusetts. Mr. Monahan represents the interests of more than 7,000 members; is Principal Negotiator of more than 40 Collective Bargaining Agreements, and is Trustee of Benefit Funds worth over \$1 billion. From 1982 until present he has held several positions within the International Brotherhood of Electrical Workers, Local 103. From 2002 to present he has served as a Member of the Zoning Board of Appeals in the City of Boston. Mr. Monahan is a volunteer for many charitable organizations, such as WiFi, City of Boston; Habitat for Humanity; NET Day, City of

Boston; Rosie's Place, Homeless Shelter for Women; Long Island Shelter and Family Inn, Brookline; Strive, Codman Square, Dorchester.

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

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

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

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

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

#### Staff and Advisors

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

**Edwards Angell Palmer & Dodge LLP**, attorneys of Boston, Massachusetts, are serving as Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of the Bonds as provided by the Agreement in substantially the form attached hereto as Appendix D.

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

## Powers of the Authority

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

## Indebtedness of the Authority

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

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

## **THE BONDS**

### Description of the Bonds

The Bonds will be issued in the aggregate principal amount set forth on the inside cover page hereof, will be dated the date of original issuance and will bear interest from such date, payable on May 15, 2009 and each November 15 and May 15 thereafter at the respective rates set forth on the inside cover page and will mature as set forth on the inside cover page hereof. Interest on the Bonds will be calculated on the basis of twelve thirty-day months for a 360-day year.

Subject to the provisions discussed under “—Book-Entry-Only System” below, the Bonds are issuable as fully registered bonds without coupons in the minimum denomination of \$5,000 or any multiple thereof. Principal of or redemption premium, if any, on the Bonds will be payable at the principal corporate trust office of the Trustee, and interest on the Bonds will be paid by check or draft mailed to the registered owner as of the first day of the month in which the interest is to be paid (the “Record Date”) or by wire transfer as provided in the Agreement.

### Exchange, Transfer and Replacement of Bonds

Unless Bonds are registered in a book-entry-only system (see “—Book-Entry-Only System” herein), they may be exchanged or transferred by the registered owners thereof or by their attorney duly authorized in writing at the principal corporate trust office of the Trustee. No charge shall be imposed upon registered owners in connection with the transfer or exchange, except for any tax or governmental charge related thereto.

Replacement Bonds shall be issued pursuant to applicable law as a result of the destruction, loss, or mutilation of Bonds. The costs of replacement shall be paid or reimbursed by the applicant, who shall indemnify the Authority, the Trustee and the Institution against all liability and expense in connection therewith.

### Redemption Provisions

The Bonds are subject to redemption in accordance with the optional redemption provisions described below.

Optional Redemption. The Bonds maturing after November 15, 2018 are subject to optional redemption prior to maturity, beginning on November 15, 2018 at the option of the Authority with the written consent of the Institution or by the written direction of the Institution to the Authority and the Trustee, as a whole or in part at any time in such order of maturity as directed by the Institution, at 100% of their principal amount, plus accrued interest to the redemption date.

Purchase of Bonds. The Institution may purchase Bonds of any maturity and credit them against a principal payment for such maturity at the principal amount or applicable redemption price by delivering them to the Trustee for cancellation at least sixty (60) days before the principal payment date.

Purchase in lieu of Redemption. Any Bonds called for optional redemption may, at the option of the Institution, be purchased in lieu of redemption by the Institution or by a person designated by the Institution on the redemption date at a price equal to the redemption price thereof.

Selection of Bonds. If fewer than all of the Bonds are to be redeemed, the particular Bonds to be called for redemption shall be selected by the Trustee by lot or in any customary manner as determined by the Trustee.

Notice of Redemption and Other Notices. Notice of redemption of Bonds shall be mailed to the registered owners of any Bonds which are to be redeemed, at the address shown on the registration books kept by the Trustee, not more than forty-five (45) nor less than thirty (30) days prior to the redemption date. Notice of redemption, which may be conditional, shall identify the Bonds to be redeemed, identify the CUSIP number of such Bonds, state the date fixed for redemption and state that such Bonds will be redeemed at the corporate trust office of the Trustee. The notice of redemption shall further state that on such date there shall become due and payable upon each Bond (or portion thereof) to be redeemed, the redemption price thereof, together with interest accrued to the redemption date. Moneys therefor having been deposited with the Trustee, interest on any Bond called for redemption shall cease to accrue from and after the date fixed for redemption.

The Institution may instruct the Trustee to provide conditional notice of redemption, which may be conditioned upon the receipt of moneys or any other event. Additionally, any such notice may be rescinded by written notice given to the Trustee by the Institution no later than five (5) Business Days prior to the date specified for redemption. The Trustee will give notice of such rescission, as soon

thereafter as practicable, in the same manner, to the same Persons, as notice of such redemption was given.

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

Failure to mail notice to a particular Bondowner, or any defect in the notice to such Bondowner, shall not affect the redemption of any other Bond. So long as DTC or its nominee is the Bondowner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

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

#### Book-Entry-Only System

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants,” and together with Direct Participants, “Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Underwriters, the Trustee, the Institution or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, such Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bond certificates will be printed and delivered to DTC. See “Certificated Bonds” below.

The information herein concerning DTC and DTC’s book-entry system has been obtained from sources that the Authority, the Institution and the Underwriters believe to be reliable, but the Authority, the Institution and the Underwriters take no responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments. NONE OF THE AUTHORITY, THE INSTITUTION, THE UNDERWRITERS, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

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

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Trustee to DTC only.

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

The Authority, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Bonds if the Authority determines that (i) DTC is unable to discharge its responsibilities with respect to the Bonds, or (ii) a continuation of the requirement that all of the Outstanding Bonds be registered in the registration books kept by the Trustee in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners. In the event that no substitute securities depository is found by the Authority or restricted registration is no longer in effect, Bond certificates will be delivered.

NONE OF THE AUTHORITY, THE INSTITUTION, THE UNDERWRITERS NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE BONDS UNDER THE AGREEMENT; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR

INTEREST DUE WITH RESPECT TO THE BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE BONDS; OR (VI) ANY OTHER MATTER.

Certificated Bonds

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. In addition, the Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners. If for either reason the Book-Entry-Only system is discontinued, Bond certificates will be delivered as described in the Agreement and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner’s name, will become the Bondowner. Thereafter, the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon assignment in form satisfactory to the Trustee. For every exchange or registration of transfer of the Bonds, the Authority and the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondowner for any exchange or registration of transfer of the Bonds. The Trustee will not be required to transfer or exchange any Bond during the notice period preceding any redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

**PLAN OF FINANCING**

A portion of the proceeds of the Bonds in the amount of \$431,735,000 will be applied to redeem, within ninety (90) days of the issuance of the Bonds, all of the Series 2006B-1, Series 2006B-2 and Series GG-1 variable rate tax-exempt bonds issued by the Authority on behalf of the Institution. The remaining portion of the proceeds of the Bonds will (1) pay at maturity \$450,130,000 of the Series EE tax-exempt commercial paper notes issued by the Authority on behalf of the Institution, (2) be used for other eligible corporate purposes of the Institution, including payments to be made by the Institution to terminate certain interest rate swap agreements, and (3) pay costs of issuance of the Bonds.

**ESTIMATED SOURCES AND USES OF FUNDS**

The table below sets forth the estimated sources and uses of funds in connection with the issuance of the Bonds.

Sources of Funds:	
Principal Amount of Bonds .....	\$1,000,000,000
Net Original Issue Discount.....	(12,717,050)
Total Sources .....	<u>\$ 987,282,950</u>
Uses of Funds:	
Repayment of Refunded Tax-Exempt Bonds	\$ 431,735,000
Repayment of Refunded Tax-Exempt Notes ...	450,130,000
Other Eligible Corporate Purposes .....	99,349,000
Costs of Issuance <sup>(1)</sup> .....	6,068,950
Total Uses .....	<u>\$ 987,282,950</u>

<sup>(1)</sup> Includes the Underwriters’ discount and other costs of issuing the Bonds.

## **RATINGS**

Moody's has assigned a long-term rating of "Aaa" to the Bonds. S&P has assigned a long-term rating of "AAA" to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained only from the rating agency furnishing the same, at the following addresses: Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007; and S&P, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. Neither the Authority nor the Institution assumes any responsibility either to notify the Bondowners of any proposed change in or withdrawal of such ratings subsequent to the date hereof or to contest any such revision or withdrawal. None of the Authority, the Institution or the Underwriters has the obligation to contest any revision or withdrawal by the rating agencies of any such ratings.

## **UNDERWRITING**

The Underwriters acting through J.P. Morgan Securities Inc. (the "Underwriters"), have agreed to purchase the Bonds at an aggregate purchase price of \$982,137,151 (representing the principal amount less an underwriting discount of \$5,145,799 less a net original issue discount of \$12,717,050), pursuant to a purchase contract. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price stated on the inside cover page hereof. The contract for the purchase of the Bonds by the Underwriters is subject to certain conditions and provides that the Underwriters will purchase all the Bonds if any are purchased and requires the Institution to make certain representations and to indemnify the Underwriters and the Authority and certain other parties against losses, claims, damages or liabilities arising out of any incorrect statements or information, including any omission of material facts, contained in this Official Statement pertaining to the Institution and other specified matters. The public offering prices set forth on the inside cover page hereof may be changed after the initial offering by the Underwriters.

J.P. Morgan Securities Inc., the representative of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

The Institution has certain other business relationships, including but not limited to lending, remarketing agent, dealer and swap counterparty relationships, with some of the Underwriters and/or their affiliates.

## **CONTINUING DISCLOSURE**

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The Institution has undertaken all responsibilities for any continuing disclosure to owners of the Bonds as described below, and the Authority shall have no liability to the owners of the Bonds or any other person with respect to Securities and Exchange Commission Rule 15c2-12.

The Institution has covenanted for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Institution (the “Annual Report”) by not later than March 1 of each year and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the Institution, or by the Trustee on behalf of the Institution, with each Nationally Recognized Municipal Securities Information Repository and the State Repository, if any. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Institution has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

On the date of delivery of the Bonds, the Institution and the Trustee will enter into the Continuing Disclosure Agreement substantially in the form attached hereto as Appendix E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

### **TAX EXEMPTION**

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Issuer and the Institution have covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds and any profit on the sale of the Bonds are exempt from Massachusetts personal income taxes and that the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondowners should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue

discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondowners should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds (“Premium Bonds”), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondowner’s basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondowner. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Prospective Bondowners should be aware that certain requirements and procedures contained or referred to in the Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Bondowners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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

## **LEGALITY OF BONDS FOR INVESTMENT AND DEPOSIT**

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

## **COMMONWEALTH NOT LIABLE ON BONDS**

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

## **LEGAL MATTERS**

All legal matters incidental to the authorization and issuance of the Bonds by the Authority are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the Bonds. Certain legal matters will be passed on for the Institution by its counsel, Ropes & Gray LLP, Boston, Massachusetts, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

There is not now pending any litigation seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. There is no litigation pending which in any manner questions the right of the Authority to make a loan to the Institution to finance the the activities described in "PLAN OF FINANCING" in accordance with the provisions of the Act and the Agreement.

## **INDEPENDENT ACCOUNTANTS**

The financial statements of the Institution as of and for the year ended June 30, 2008, with summarized comparative financial information as of and for the year ended June 30, 2007, included in Appendix B to this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix B hereto.

## **MISCELLANEOUS**

The references to the Act and the Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to the Act and the Agreement for full and complete statements of such provisions. The agreements of the Authority with the Bondowners are fully set forth in the Agreement, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Bondowners. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and the Trustee.

Appendix A to this Official Statement sets forth certain operating and financial information of the Institution. Appendix B to this Official Statement sets forth the "Harvard University Financial Report Fiscal Year 2008," which includes the audited financial statements of the Institution for the fiscal year ended June 30, 2008. While the information contained in such Report is believed to be reliable, neither the Authority nor the Underwriters make any representations or warranties whatsoever with respect to

such information. The Authority has relied on the information contained in Appendix A and in Appendix B.

Appendix C – “DEFINITIONS AND SUMMARY OF THE LOAN AND TRUST AGREEMENT” and Appendix D – “PROPOSED FORM OF BOND COUNSEL OPINION,” attached hereto, have been prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority.

All appendices hereto are incorporated herein as an integral part of this Official Statement.

The Institution has reviewed the portions of this Official Statement describing the Institution, “ESTIMATED SOURCES AND USES OF FUNDS,” the “PLAN OF FINANCING” and the second and third paragraphs under the heading “CONTINUING DISCLOSURE,” has furnished Appendix A and Appendix B to this Official Statement, and has approved all such information for use with this Official Statement. At the closing, the Institution will certify that such portions of this Official Statement do not contain an untrue statement of a material fact or omit a statement of material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

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

MASSACHUSETTS HEALTH AND EDUCATIONAL  
FACILITIES AUTHORITY

By: /s/ BENSON T. CASWELL

Benson T. Caswell  
Executive Director

**APPENDIX A**

**CERTAIN INFORMATION CONCERNING THE INSTITUTION**

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# HARVARD UNIVERSITY

MASSACHUSETTS HALL  
CAMBRIDGE, MASSACHUSETTS 02138

## APPENDIX A

December 10, 2008

The following is information with respect to the President and Fellows of Harvard College (“Harvard” or the “University”).

### **The University**

Harvard is one of the nation’s oldest and most prestigious institutions of higher education. Harvard is an educational corporation incorporated in 1650 by act of the Colony of Massachusetts Bay confirmed, as amended, in the Constitution of 1780 of The Commonwealth of Massachusetts. It is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Its principal site is in Cambridge, Massachusetts. The University consists of Harvard College, eleven graduate schools and several research institutions and museums. Radcliffe College merged into the University on October 1, 1999.

Since 1650, the University has been governed by the Corporation and the Board of Overseers. The Corporation consists of the President, the Treasurer and five Fellows who elect their successors with the consent of the Board of Overseers (the “Board”). The Corporation supervises the management of the financial affairs of the University without need of consent by the Board to specific transactions. The members of the Corporation are:

### **President and Fellows of Harvard College**

#### **Drew Gilpin Faust**

President  
Harvard University

#### **James F. Rothenberg**

President, Capital Research and Management Company  
Treasurer of Harvard College

**James R. Houghton**  
Chairman Emeritus  
Corning Incorporated

**Nannerl O. Keohane**  
Former President  
Duke University and Wellesley College

**Patricia A. King**  
Professor of Law, Medicine, Ethics and Public Policy  
The Georgetown University Law Center

**Robert D. Reischauer**  
President  
The Urban Institute

**Robert E. Rubin<sup>1</sup>**  
Director and Senior Counselor  
Citigroup Inc.

The Board consists of the President and the Treasurer *ex-officiis* and 30 persons elected by the alumni of the University for six-year staggered terms. A member of the Board may serve more than one term. The consent of the Board is required for certain acts of the Corporation, including the election of successors to Fellows, certain academic and administrative appointments (including the President and the Treasurer) and the awarding of degrees. The Board also reviews the academic performance of the University through some 59 visiting committees composed of both overseers and others.

On September 1, 2008, Edward C. Forst became the University's first Executive Vice President. Mr. Forst was hired to oversee the financial, administrative, and human resources functions of the University.

On October 15, 2008, Daniel Shore was appointed Chief Financial Officer and Vice President for Finance after serving in the role on an interim basis since May 9, 2008. Mr. Shore was previously Director of Budgets and Financial Planning.

## **Administration**

The academic affairs of the University are managed by the President, the Provost, and the deans of the University's faculties. The non-academic affairs of the University are managed by the President, the Treasurer, the Executive Vice President and seven Vice Presidents. The principal administrative officers of the University are as follows:

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<sup>1</sup> Citigroup Inc., of which Mr. Rubin is a Director and Senior Counselor, is acting as an underwriter with respect to the Series 2009A Bonds.

Drew Gilpin Faust	President
Steven Hyman	Provost
James F. Rothenberg	Treasurer
Edward C. Forst	Executive Vice President
Tamara Rogers	Vice President for Alumni Affairs and Development
Robert W. Iuliano	Vice President and General Counsel
Daniel Shore	Vice President for Finance
Christine Heenan	Vice President for Government, Community and Public Affairs
Sally H. Zeckhauser	Vice President for Administration
Clayton Spencer	Vice President for Policy
Marilyn Hausammann	Vice President for Human Resources

### Harvard Management Company

On July 1, 2008, Jane Mendillo became the new president and chief executive officer of the Harvard Management Company (“HMC”). Prior to this appointment, Ms. Mendillo served for six years as the chief investment officer of Wellesley College, after nearly 15 years as one of HMC’s senior investment officers.

### Student Applications and Enrollment

The University receives applications substantially in excess of the number of students it can accept into undergraduate and graduate programs. Enrollment levels are correlated with other planning decisions. The following table shows applications received, and the number of freshmen admitted to and enrolled in Harvard College for the fall terms of the indicated academic years.

Academic Year	Freshman Applications Received	Freshmen Admitted	Freshmen Enrolled	Selectivity (%)	Yield (%)
2004-05	19,690	2,054	1,582	10.4	77.0
2005-06	22,769	2,102	1,640	9.2	78.0
2006-07	22,754	2,125	1,684	9.3	79.2
2007-08	22,955	2,108	1,659	9.2	78.7
2008-09	27,380	2,095	1,658	7.7	79.1

The following table shows the total number of full-time equivalent undergraduate students and graduate degree candidates enrolled for the fall term of the academic years indicated. Degree candidate figures do not include Continuing Education.

Academic Year	Undergraduate	Graduate	Total
2004-05	6,562	11,768	18,362
2005-06	6,613	11,963	18,525
2006-07	6,714	12,181	18,895
2007-08	6,645	12,054	18,698
2008-09	6,673	12,041	18,713

The University expects that annual enrollments in its undergraduate and graduate programs will remain at approximately the same levels for the next five academic years.

### **Tuition, Fees and Room & Board**

Shown below are undergraduate charges for fiscal years 2005 through 2009.

Fiscal Year	Tuition and Fees	Average Room and Board	Total
2005	\$30,620	\$9,260	\$39,880
2006	32,097	9,578	41,675
2007	33,709	9,946	43,655
2008	34,998	10,622	45,620
2009	36,173	11,042	47,215

### **Student Financial Aid**

The University's undergraduate admissions policy includes the tenet that admission is need-blind. As of June 30, 2007, approximately 70% of undergraduate students received some form of financial aid, with close to 51% 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. Harvard participates in the Federal Direct Student Loan Program. Total loans to students and parents as of June 30, 2007, included \$3.1 million of loans issued by Harvard under federally guaranteed programs, \$63.4 million of loans made under federally funded revolving loan programs, and \$67.5 million of loans funded by donors or by unrestricted funds of the faculties. At the close of fiscal years 2003 through 2007, student loans (in millions of dollars, net of reserve for bad debt) from all University sources amounted to:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Student Loans Outstanding	\$136.7	\$128.6	\$128.6	\$126.5	\$134.0

On December 10, 2007, President Faust and Dean of the Faculty of Arts and Sciences Michael D. Smith announced an overhaul of financial aid policies designed to make Harvard College more affordable for families across the income spectrum. The new initiative focuses on ensuring greater affordability for middle- and upper-middle-income families through major enhancements to grant aid, the elimination of student loans, and the removal of home equity from financial aid calculations.

### **Faculty and Staff**

Harvard employs approximately 2,500 faculty. Each school at the University is responsible for its own staffing policies, which include hiring and wage and salary administration. Faculty tenure decisions and certain other appointments are subject to the approval of the Corporation.

### **Labor Relations**

The University had approximately 14,500 employees as of September 30, 2008 (not including post-doctoral degree candidates, visiting scholars, research associates, research fellows and temporary or less than half-time workers). The University considers its relations with its employees to be good. Approximately 6,000 of its employees are covered under seven collective bargaining agreements, represented by ten labor unions. Bargaining units consist of clerical and technical workers; dining service workers; custodians; arborists and gardeners; maintenance tradespersons; police officers; and museum, parking and security guards. The seven collective bargaining agreements covering these employees have varying expiration dates between calendar years 2010 and 2012.

### **Future Facilities**

The University continues to move forward in planning for future development in Allston, Massachusetts. The expansion into Allston will be material to the future operations of the University. It is anticipated that the University will continue to access both tax-exempt and taxable debt capital markets to help finance future capital plans, including those relating to Allston.

### **Litigation**

The University is subject to various suits, audits, investigations and other legal proceedings in the course of its operations. While the University's ultimate liability, if any, is not determinable at present, no such proceedings are pending or threatened that, in management's opinion, would be likely to have a material adverse effect on the University's ability to pay debt service with respect to the Bonds.

### **Additional Information**

As of December 10, 2008, the outstanding balance of the University's tax-exempt commercial paper program was \$752,642,000 out of an authorized limit of

\$1,000,000,000. As of December 10, 2008, the outstanding balance of the University's previously issued taxable commercial paper program was \$872,594,000 out of an authorized limit of \$2,000,000,000.

In December, 2008 the Institution sold \$1,500,000,000 of taxable bonds (the "Series 2008D Bonds") in a private transaction exempt from registration under the Securities Act of 1933, as amended. Proceeds from the Series 2008D Bonds will be used to repay portions of the outstanding taxable commercial paper program, finance working capital, and finance certain swap termination payments. After giving effect to the repayment of a portion of the taxable commercial paper program from the proceeds of the Series 2008D Bonds and the Bonds being issued under this Official Statement, the University estimates that the aggregate outstanding debt will be approximately \$6,000,000,000.

As of June 30, 2008, the total value of the University's endowment was \$36.9 billion. Since that time, significant volatility and decline in world financial markets have impacted all major asset classes in which the University's endowment is invested. The University historically has not publicly provided interim return information. Nonetheless, an estimate of recent investment losses is provided below. The estimate is unaudited and is determined in accordance with Harvard Management Company's internal valuation conventions, which rely in part on periodic valuations provided by outside fund sponsors for investments in certain illiquid asset classes. Based on these conventions, the net investment return for the University's endowment is estimated to be -22% for the period from July 1, 2008 to October 31, 2008. This estimate does not reflect updated valuations for certain investments for which valuations are only infrequently provided. The estimate is further subject to the continuing effects of volatility, limited liquidity and pricing issues in certain markets.

In light of the trailing valuations and general market turmoil, the University's administration is currently assuming an investment loss in the current fiscal year of 30% for purposes of its near-term planning. This assumption is subject to the possibility that investment values may increase or decrease during the remainder of the fiscal year.

\* \* \*

This Appendix A and the accompanying “Financial Report Fiscal Year 2008” appended as Appendix B are submitted for inclusion in the Official Statement relating to the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series 2009A.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

By: /s/ Daniel Shore  
Vice President for Finance and Chief Financial Officer

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**APPENDIX B**

**HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2008**

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# HARVARD UNIVERSITY FINANCIAL REPORT

FISCAL YEAR 2008





An upperclass student in Kirkland House sketches during her free time.

“ We want all students who might dream of a Harvard education to know that it is a realistic and affordable option. Education is fundamental to the future of individuals and the nation, and we are determined to do our part to restore its place as an engine of opportunity, rather than a source of financial stress...This is a huge investment for Harvard, but there is no more important commitment we could make. Excellence and opportunity must go hand in hand. ”

—President Drew Gilpin Faust announcing the *Middle Income Financial Aid Initiative*, December 10, 2007

2	MESSAGE FROM THE PRESIDENT
3	FINANCIAL HIGHLIGHTS
8	ANNUAL REPORT OF THE HARVARD MANAGEMENT COMPANY
15	REPORT OF INDEPENDENT AUDITORS
16	FINANCIAL STATEMENTS
20	NOTES TO FINANCIAL STATEMENTS

## Message from the President

I am pleased to present Harvard University's financial report for fiscal 2008. Under very challenging market conditions, we achieved endowment returns of 8.6%, raising the endowment to \$36.9 billion. Income from the endowment contributed approximately one-third of the University's operating budget, while also supporting substantial capital outlays. In addition, our alumni and friends contributed \$690.1 million during fiscal 2008, the second highest level of fundraising receipts in the University's history.

We are very fortunate to have these resources with which to fund our extraordinarily ambitious academic agenda. With an exceptionally strong leadership team now in place, planning is moving forward at a brisk pace in a number of areas. We have new deans in the Faculty of Arts and Sciences, the Graduate School of Arts and Sciences, Harvard College, the Medical School, the Design School, and the Radcliffe Institute, a new dean arriving in January at the School of Public Health, and a search underway for the dean of the School of Engineering and Applied Sciences. In addition, Judith Singer has become the new Senior Vice Provost for Faculty Development and Diversity, Ed Forst has joined us in the newly created role of Executive Vice President, and Christine Heenan has been named to succeed Alan Stone as Vice President for Government, Community, and Public Affairs as of October 1. Construction of the Harvard Allston Science Complex, which will house, among other things, the Harvard Stem Cell Institute, is underway and on schedule. Planning for Allston in the areas of transportation, infrastructure, and a range of academic and other uses is ongoing.

Meanwhile, the Common Spaces Steering Committee has begun its examination of physical spaces on our Cambridge campus to see what enhancements might be made in the near term to create a more inviting, interactive, and vibrant atmosphere for all members of the Harvard community. The Arts Task Force, appointed last year and chaired by Cogan University Professor of the Humanities Stephen Greenblatt, will report its findings this fall about the place of arts practice in the life of the University, with potential implications for curriculum, programming, and space. Our Greenhouse Gas Task Force released its report in June, and work is now underway to implement our plan to reduce Harvard's carbon emissions by 30%, inclusive of growth, by 2016, an ambitious goal that will help the University confront two of the most important challenges of our time—climate change and sustainability.

We will also continue to explore ways to reduce financial barriers to attending Harvard. In 2004, we launched the Harvard Financial Aid Initiative, under which families with incomes below \$60,000 are not asked to contribute to the cost of sending their children to Harvard College. Last December, we announced a sweeping overhaul of College financial aid policies for middle income families, which eliminated loans and home equity from consideration in financial aid calculations, and ensured that families with incomes between \$120,000 and \$180,000 and with assets typical for those income levels would pay an average of 10% of their annual income to send a child to Harvard.

For all of these undertakings, and the many more not mentioned, we will continue to rely on the active engagement of our students, faculty, and staff, as well as on resources provided by the endowment and by our extraordinarily generous alumni and friends. For this past year, I am especially grateful to Robert S. Kaplan, interim CEO of the Harvard Management Company (HMC) from November 2007, who worked so effectively to ensure a smooth transition of HMC to its new leadership under Jane Mendillo.

Sincerely,



Drew Gilpin Faust  
PRESIDENT

October 5, 2008

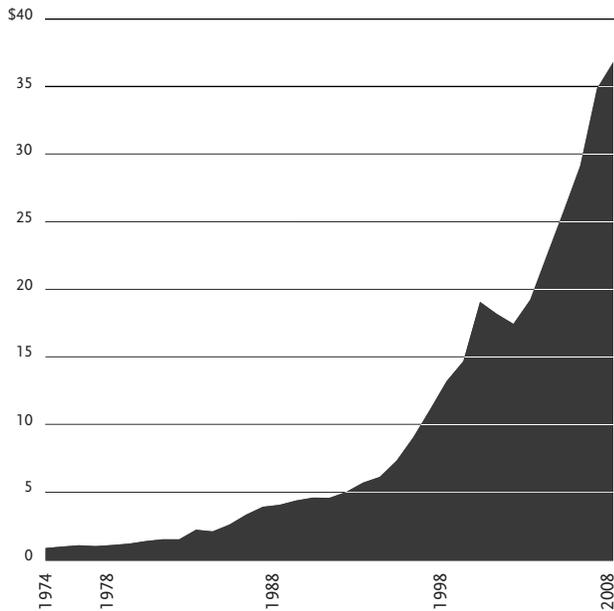
# Financial highlights

The University's fiscal 2008 financial results were strong, thanks to continuing endowment growth and a high level of giving from alumni and friends. These financial achievements supported progress in many areas: planning for enhancements to the Allston campus and beginning construction in Allston of a signature science complex; a continued focus on financial aid, expected to expand significantly in fiscal 2009 as a result of the College's middle-income initiative; and growth in international programs, notably in China and Africa, bolstered by David Rockefeller's recent gift for study abroad programs.

To ensure future financial success and programmatic accomplishments, the University must continue to manage its resources wisely. These resources generate both great opportunity and tremendous responsibility.

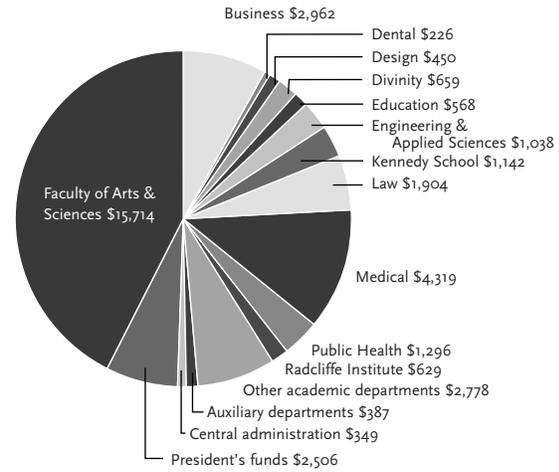
## ENDOWMENT GROWTH

*In billions of dollars*



## FAIR VALUE OF ENDOWMENT FUNDS AS OF JUNE 30, 2008

*In millions of dollars*



**TOTAL FAIR VALUE \$36,927**

## ENDOWMENT PERFORMANCE

Generous donors and solid investment returns boosted the University's endowment to a record fair value of \$36.9 billion as of June 30, 2008. Harvard Management Company (HMC) is responsible for managing the investments that comprise the endowment. The endowment's total return for fiscal 2008 was 8.6%, exceeding the annual performance benchmark

by 1.7% and resulting in a five-year annualized return of 17.6%.<sup>1</sup> The unaudited *Annual Report of the Harvard Management Company*, beginning on page 8, discusses HMC's investment philosophy and further analyzes the endowment's fiscal 2008 performance.

### SUMMARY OF FINANCIAL RESULTS

<i>In millions of dollars</i>	2008	2007	2006	2005	2004
Total revenue	\$ 3,482.3	\$ 3,210.5	\$ 2,999.6	\$ 2,800.9	\$ 2,597.7
Total expenses	3,464.9	3,170.7	2,999.5	2,757.4	2,560.9
Total gifts	690.1	615.0	595.8	590.7*	549.6*
Fixed assets, net	4,951.3	4,524.2	4,078.5	3,797.8	3,468.9
Total investments	43,804.3	41,832.9	34,249.6	29,938.2*	26,211.0*
Bonds and notes payable	4,089.9	3,847.0	2,922.2	2,849.1	2,604.7
Net assets—General Operating Account	6,575.1	6,438.6	5,116.1	4,197.6	3,935.5
Net assets—endowment	36,926.7	34,912.1	29,219.4	25,853.0	22,587.3
Total return on general investments**	8.6%	23.0%	16.7%	19.2%	21.1%

\* These numbers have been recast to conform with fiscal 2006 presentation.

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

## OPERATING RESULTS

The University's fiscal 2008 operating surplus was \$17.4 million. Revenue rose 8% to \$3.5 billion due primarily to growth in the University's endowment income distributed for operations. Operating expenses also totaled \$3.5 billion, a 9% increase over the prior year.

### Student income

Student income increased 4%, totaling \$682.0 million in fiscal 2008. Revenue from both undergraduate and graduate tuition rose 3%, reflecting tuition rate growth partly offset by small declines in enrollment for some Schools. Total student board and lodging income grew 6%, primarily due to the annual increase in the undergraduate room and board rate and new graduate housing facilities. Continuing and executive education revenue rose 11%, largely a result of increased executive education revenue at Harvard Business School and enrollment growth at the Extension School, as well as new programs at Harvard Medical School.

### Sponsored support

Total sponsored revenue increased 4% to \$668.4 million in fiscal 2008. The University received 80% of its sponsored funding from the federal government, 13% from foundations, and 7% from other sources.

Total federal funding increased 4% to \$535.0 million. Approximately 80% or \$435.0 million of the University's federal funding originated from various agencies of the Department of Health and Human Services, most notably the National Institutes of Health (NIH). Funding from the NIH increased less than 2%. The President's Emergency Plan for AIDS Relief (PEPFAR) project in Africa grew significantly, with total support of \$66.6 million in fiscal 2008, increasing 37% from \$48.5 million in the prior year. The original PEPFAR award entered its fifth and final year in fiscal 2008.

Non-federal sponsored support grew 5% to \$133.5 million. Corporate funding continued to account for approximately 15% of non-federal sponsored activity, and foundation support rose 12% to \$81.4 million, increasing for the first time in five years.

<sup>1</sup> These returns are calculated on a time-weighted basis, net of all fees and expenses, and include the impact of revenue-sharing agreements with certain fund managers.

**Gifts for current use**

Gifts from alumni and friends provide vital funding for the University’s ongoing operations and strategic priorities, such as faculty development and financial aid. Current use gifts rose 11% in fiscal 2008, totaling \$236.6 million.

**Investment income**

Total investment income increased 15% to \$1.4 billion. The largest component of investment income, endowment income distributed for operations, climbed 15% to \$1.2 billion. When combined with endowment decapitalizations, the University’s aggregate endowment payout rate was 4.8%, slightly below the University’s targeted payout rate range of 5.0% to 5.5%.

Endowment income distributed for operations remained Harvard’s largest source of income in fiscal 2008, representing 34% of total operating income compared

with 23% ten years ago. This growth has resulted from the generous support of the University’s alumni and friends as well as the endowment’s continued strong performance.

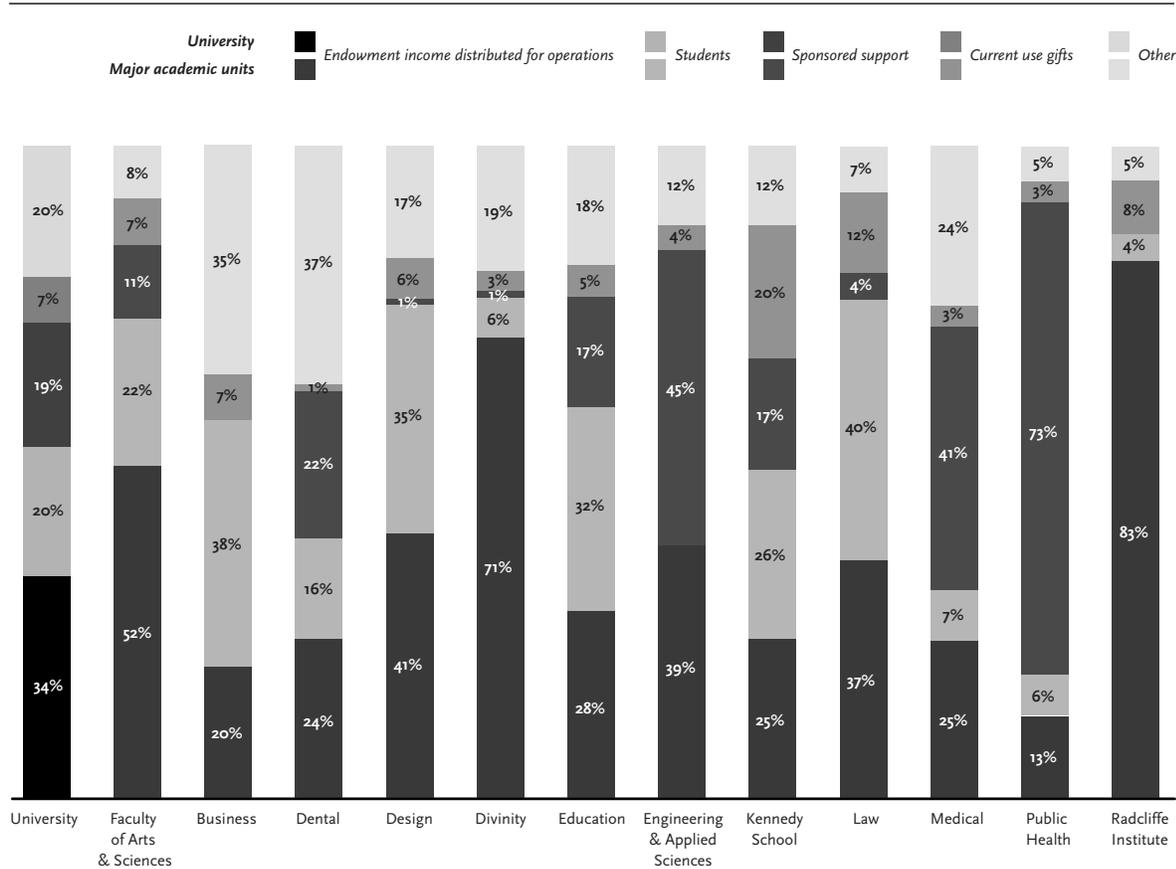
**Other income**

Other income rose 5% to \$510.9 million in fiscal 2008, primarily due to increases in royalty income for Harvard Business School Publishing and Harvard Medical School.

**Compensation**

Compensation costs represented 48% of the University’s total expenses in fiscal 2008. These costs totaled \$1.7 billion in fiscal 2008, an increase of 7% over fiscal 2007. This increase was driven by 8% growth in total salary and wage costs and a 6% increase in benefits expenses.

**FISCAL 2008 SOURCES OF REVENUE**



Inflationary trends in health care costs continue to be a concern and have driven the University to develop a multi-year health care strategy. In fiscal 2008, a new pharmacy benefits manager was adopted, with associated cost savings of approximately \$6.6 million anticipated over the next three years. In addition, the University engaged in a competitive proposal process for health plan administration, resulting in the consolidation of health care offerings under a smaller number of administrators. Through this consolidation, the University expects to save an additional \$6.2 million over the next three years.

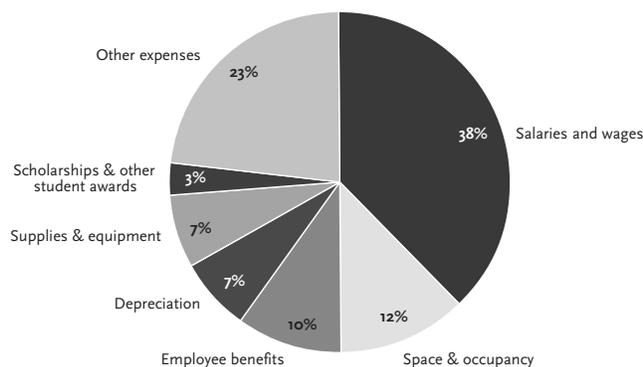
### Financial aid

Expanding the financial aid programs for both undergraduate and graduate students continues to be one of the University's top priorities. Scholarships and student awards, including amounts applied against student income, rose 7% to \$362.7 million in fiscal 2008.

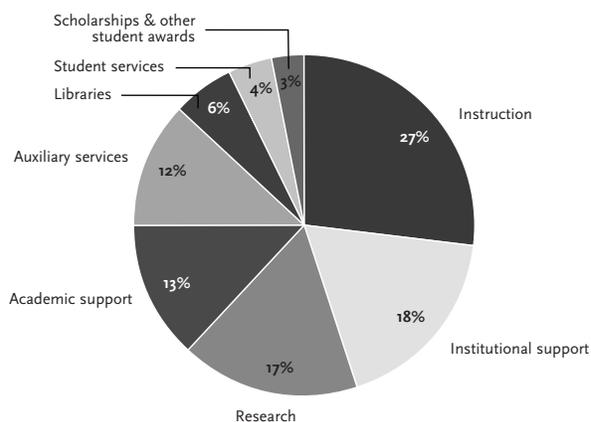
In addition, the University spent \$56.8 million on student employment, loaned \$32.6 million to students, and acted as agent on behalf of specific student recipients for \$12.6 million in aid from outside sponsors.

Building on the success of the undergraduate Harvard Financial Aid Initiative, which eliminated the parental contribution for families earning \$60,000 or less, in fiscal 2008, Harvard College announced major financial aid enhancements to ensure greater affordability for middle- and upper-middle income families. Beginning in the 2008-09 academic year, parents with incomes of \$180,000 or less and assets typical for those income levels will be asked to contribute significantly less to the cost of a Harvard education: on average from 0% to 10% of their total income. Additionally, home equity will no longer be considered in determining a family's ability to contribute, and students will not be expected to take out loans, which will be replaced by need-based Harvard scholarships.

### FISCAL 2008 OPERATING EXPENSES



### FISCAL 2008 FUNCTIONAL EXPENSES



### Supplies and equipment

Supplies and equipment expenses increased 9% to \$235.0 million. This increase is primarily related to supplies for sponsored projects, costs of goods sold associated with higher computer sales to students and affiliates, as well as library collections acquired during fiscal 2008. University-wide contracts with vendor partners together with cost-conscious purchasing practices contained further expense growth.

### Space and occupancy

Space and occupancy costs totaled \$411.1 million in fiscal 2008, a 1% increase over the prior year. Higher space-related maintenance and operations expenses as well as moderate growth in utilities costs were offset by lower interest expense associated with variable-rate bonds and notes payable. The University continues to manage utilities rate growth by refining its electricity and natural gas purchasing strategies, and by promoting energy conservation and sustainability efforts.

### Other expenses

Other expenses grew 18% to \$800.9 million, largely due to costs associated with the Broad Institute; increases in subcontracted research for sponsored projects at the School of Public Health; and payments to the Harvard-affiliated hospitals. In addition, travel costs increased 18%, as the University's global presence continued to expand.

## CAPITAL ACTIVITIES

The University invested \$591.1 million in capital projects and acquisitions during fiscal 2008. Of this amount, 54% was spent on new construction and acquisitions, and 46% was invested in the existing physical plant.

The Faculty of Arts and Sciences (FAS) completed work on two new science buildings during fiscal 2008: the Laboratory for Integrated Science and Engineering and the Northwest Science Building. Laboratory fit-outs in the Northwest Science Building will continue during fiscal 2009. The FAS also made substantial investments in student life during fiscal 2008, completing renovation work at the New College Theatre and structural improvements at the Malkin Athletic Center. The FAS now is focusing on a long-term renewal strategy for its undergraduate Houses.

Many of Harvard's other Schools and units advanced important capital projects during fiscal 2008, including Harvard Law School's Northwest Corner building, where site excavation and foundation work was undertaken; and the Harvard Art Museum's planned renovation and expansion project, for which design activities are ongoing.

Construction on the Harvard Allston Science Complex began in January 2008, after an intensive public review and subsequent approval by the Boston Redevelopment Authority. The University has entered into a voluntary agreement with the Commonwealth of Massachusetts to cap greenhouse gas emissions from new buildings constructed in its Allston Science Complex to 50% below that of a standard laboratory building and 30% below established standards for the full Allston campus development. The University is continuing extensive consultation with the Harvard community, the City of Boston, and Allston neighbors on a proposed institutional master plan that will be filed in 2009.

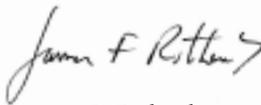
As part of the continuing advancement of the master plan, and as a related community benefit, a cooperation agreement was developed and negotiated with the City of Boston, resulting in significant benefits to the Allston neighborhood in the areas of education; public

realm improvements, including a new public space currently known as Library Park; as well as workforce and economic development. Other related projects begun during the year included planning, development, and opening of the Harvard Allston Education Portal in North Allston, allowing neighborhood residents to access educational and recreational resources at the University, and active participation with the Boston Redevelopment Authority in community-wide planning for the neighborhood.

Realizing the University's academic aspirations in Allston, continuing to ensure access and affordability for students, and expanding Harvard's global presence are merely a few of the coming years' priorities, all of which will require significant resources. Careful stewardship of Harvard's investments and resources remains essential. This stewardship, and the ongoing generosity of donors, will help support the University's mission in the decades to come.



Daniel S. Shore  
ACTING CHIEF FINANCIAL OFFICER



James F. Rothenberg  
TREASURER

**October 5, 2008**

# 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, 2008, HMC managed a total of \$45.2 billion, \$43.0 billion of which consisted of the General Investment Account (GIA). The GIA is a pooled fund consisting primarily of \$36.9 billion of endowment assets. The information presented in this unaudited report relates to the GIA.

## PERFORMANCE OF THE GENERAL INVESTMENT ACCOUNT

The GIA experienced solid absolute and relative performance for the year ended June 30, 2008. The total investment return amounted to 8.6%, 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 \$40.8 billion as of June 30, 2007 to \$43.0 billion as of June 30, 2008. The endowment, the largest component of the GIA, grew from \$34.9 billion to \$36.9 billion during the same period.

The fiscal 2008 investment return is consistent with HMC’s history of strong investment performance. Relative to the major U.S. indices, the GIA outpaced the negative 13.1% registered by the S&P 500 Index and the 7.1% registered by the Lehman Aggregate Index (which is a broad measure of the bond market) during fiscal 2008.

Within the overall investment return, HMC’s efforts to add value contributed 1.7% (8.6% versus a policy portfolio benchmark return of 6.9%) for fiscal 2008, translating into \$717.6 million of additional value for the GIA.

Traditionally, HMC has measured itself against the TUCS median (Trust Universe Comparison Service) for peer comparison. In comparison with this measure, which incorporates available data on 165 large institutional investors, the GIA’s performance exceeded the median return of negative 4.4%, as well as the top five percentile return of 3.2%.

HMC’s value-added efforts benefited from internal and external portfolio management’s specific investment strategies, as well as top-down adjustments in overall positioning of the GIA. Specifically, the GIA’s value was enhanced by:

- the outperformance of the internal portfolio management group;
- asset allocation adjustments driven by intra-year risk mitigation considerations as well as market overlay strategies intended to serve as protection against extreme market events; and
- the strong results delivered by a number of long-standing and recently added external managers.

## RESULTS BY ASSET CLASS

Consistent with global developments, the main drivers of the GIA performance came from investments in liquid commodities and domestic, foreign, and inflation-indexed bonds, as well as investments in timber/agricultural land, private equity, and emerging market equity.

The following section discusses the investment management approach for each of the asset classes of the GIA, as well as fiscal 2008 investment results. All returns are calculated on a time-weighted basis, with the exception of private equity, real estate, high-yield, liquid commodities, and timber/agricultural land, which are calculated on a dollar-weighted basis. Returns are net of all fees and expenses, and include the impact of revenue-sharing agreements with certain fund managers. Individual benchmarks are a broad and deep representation of each asset class.

### Domestic equity

During fiscal 2008, the domestic equity program returned a negative 12.7% compared with a negative 13.1% for the domestic equity benchmark, for a positive result relative to the benchmark of 0.4%. The majority of the domestic equity portfolio is managed by external managers with varying strategies, with a smaller portion managed internally.

### Foreign equity

The foreign equity program returned negative 12.1% in fiscal 2008, compared with a negative 11.1% for the foreign equity benchmark. The external managers retained for foreign equity had mixed results against their benchmarks in fiscal 2008.

### Emerging market equity

Overall, the emerging market equity program returned 7.6% compared to 4.8% for the benchmark. Three strategies are used to manage equities in emerging markets. The first strategy is an internally managed fund, which outperformed its benchmark in fiscal 2008 by 2.1%. The second strategy employs a mix of external managers with various geographic expertise. These managers had mixed results versus their benchmarks in fiscal 2008. Finally, a small portion of emerging market equity is invested in international private equity funds. This strategy slightly underperformed its benchmark in fiscal 2008, although most of the funds are too new for meaningful performance measurement.

### Private equity

Private equity returns in fiscal 2008 were 9.3%, compared with 6.3% for the benchmark. At the end of fiscal 2008, the private equity portfolio consisted of 210 funds across 80 different external management teams. HMC expects that, over the long term, private equity will produce returns in excess of those that are found in the public markets. However, the private equity and venture capital businesses tend to be cyclical, and returns may vary widely from one period to the next. The private equity portfolio is currently allocated 70% to corporate finance funds and 30% to venture capital funds. Geographically, the allocation is split 70% for U.S. and 30% for non-U.S. opportunities.

### Domestic bonds

The domestic bond portfolio returned 16.1% in fiscal 2008 compared with 12.7% for the benchmark. The domestic bond portfolio is managed both internally and externally with a focus on arbitrage situations—the opportunity to buy relatively inexpensive securities and simultaneously sell overvalued securities with similar characteristics. The internal portion of the portfolio sharply outperformed its benchmark in fiscal 2008, and the external manager results were mixed. Since the overall maturity structure and duration of the portfolio is kept close to the benchmark index, interest rate movements typically have little influence on relative performance. The domestic bond results include some market overlay strategies intended to protect against extreme market events.

### Foreign bonds

The foreign bond portfolio returned 21.3% in fiscal 2008, compared with the benchmark return of 18.5%. The entire foreign bond portfolio is managed internally. As with domestic bonds, the emphasis is on identifying arbitrage opportunities across a variety of international fixed income-related securities. Duration and country allocations do not vary substantially from the benchmark.

### Inflation-indexed bonds

The inflation-indexed bond portfolio returned 20.3% in fiscal 2008, outperforming the benchmark return of 16.3%. The internal component is passively managed and performed consistently with its benchmark. The externally managed portion significantly outperformed its benchmark.

## High-yield

The domestic portion of the high-yield portfolio is managed externally by firms that emphasize flexibility in assessing situations where debt securities appear to be incorrectly valued. These managers slightly outperformed their benchmark in fiscal 2008. The international portion of the portfolio consists of both developed markets and emerging market debt managers. The developed market managers focus primarily on credit opportunities in the more established markets, and results for fiscal 2008 were mixed. The emerging market debt portion underperformed its benchmark. Overall, the high-yield portfolio underperformed its benchmark in fiscal 2008 by 9.0%.

## Liquid commodities

HMC has had a long-standing strategy of allocating a portion of the GIA to liquid commodities (in addition to timber/agricultural land investments, which are discussed below). The liquid commodities strategy is managed by several external managers who attempt to outperform an index of publicly traded commodities by discovering and exploiting mispricings among commodity-related securities. This strategy outperformed its benchmark by 3.6% in fiscal 2008.

## Timber/agricultural land

The portfolio of global timber/agricultural land investments outperformed its benchmark by 7.7% in fiscal 2008.

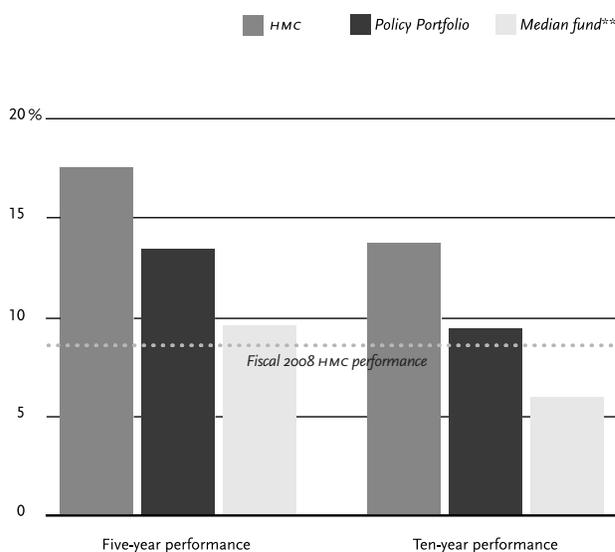
## Real estate

The real estate portfolio returned 3.2% in 2008, compared with 2.4% for the benchmark. The real estate portfolio is focused primarily on opportunity funds where managers strive to find undervalued assets. A smaller portion of the real estate portfolio is composed of REITs (real estate investment trusts) traded in the public markets.

## Absolute return

A diverse set of external managers is employed in order to create an absolute return portfolio that is expected to generate positive returns over the long term without regard to a specific security index. These managers typically focus on merger arbitrage, convertible arbitrage, quantitative trading, pairs trading, distressed opportunities, balance sheet arbitrage, and absolute value trading. Ideally, these managers are sufficiently hedged to generate positive returns in either up or down markets. In fiscal 2008, this program returned 0.1%, underperforming the benchmark by 1.7%.

### FIVE- AND TEN-YEAR ANNUALIZED AVERAGE RETURNS\*



### ANNUALIZED AVERAGE RETURNS FOR THE PERIODS ENDED JUNE 30, 2008

	Total return <sup>o</sup>	Policy Portfolio	Value added
1 year	8.6%	6.9%	1.7%
5 years	17.6	13.5	4.1
10 years	13.8	9.5	4.3
15 years	15.7	11.8	3.9
20 years	14.2	12.0	2.2
25 years	14.4	12.4	2.0
30 years	14.6	12.9	1.7
Since inception	13.2	11.8	1.4

<sup>o</sup> Total return is net of all fees and expenses, and includes the impact of revenue-sharing agreements with certain fund managers.

**THE HISTORICAL CONTEXT**

The annualized five- and ten-year performance for the GIA, after incorporating the fiscal 2008 results, is summarized in the chart on page 10. Three historical factors are worth noting:

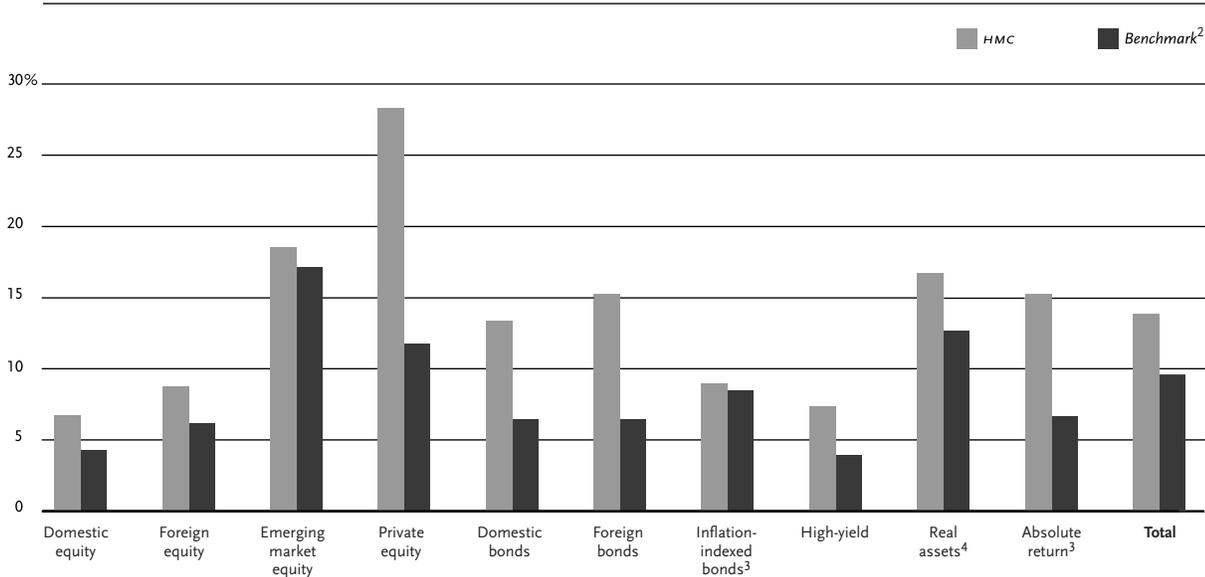
- First, by significantly outperforming the University’s long-term real return target over time, the GIA has taken advantage of the opportunities present in the market to build an important margin for the future.
- Second, by having access to a mix of both internal and external investment management 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.
- Third, relative to the long-term average for institutional funds, the GIA has maintained an outperformance margin that continues to exceed the target of 1.5%.

Historical outperformance of the GIA has been accompanied by consistently solid results at the individual asset class level.

**INVESTMENT MANAGEMENT PHILOSOPHY AND PROCESS**

HMC’s results were achieved within the context of a disciplined investment philosophy and approach that has served the GIA well over the years. The Policy Portfolio, a long-term target asset allocation, reflects the HMC Board of Director’s assessment of the best mix of investments, by asset class, for the University. This assessment is based on the long-term risk and return characteristics of different markets, and the historical and projected relationships among markets. In aligning the endowment with the Policy Portfolio, HMC uses a blend of internal and external investment management.

**ANNUALIZED TEN-YEAR PERFORMANCE BY ASSET CLASS<sup>1</sup>**



<sup>1</sup> Returns are calculated on a time-weighted basis with the exception of private equity, high-yield, and real assets, which are calculated on a dollar-weighted basis. Returns are net of all fees and expenses, and include the impact of revenue-sharing agreements with certain fund managers.

<sup>2</sup> Individual benchmarks are representative of each asset class and are approved by the Board.

<sup>3</sup> Inflation-indexed bonds and absolute return have been held for less than ten years. For these asset classes, the HMC return and the benchmark reflect annualized performance of 9.00 years and 9.75 years, respectively.

<sup>4</sup> Real assets consist of investments in liquid commodities, timber/agricultural land, and real estate.

The breakdown of the GIA by asset category as of June 30, 2008 and 2007, respectively, was (in millions of dollars):

	2008	2007
<b>Equities:</b>		
Domestic equity	\$ 5,085	\$ 7,266
Foreign equity	5,143	5,932
Emerging market equity	4,304	4,595
Private equity	5,163	4,156
<b>Total equities</b>	<b>19,695</b>	<b>21,949</b>
<b>Fixed-income:</b>		
Domestic bonds	1,838	2,694
Foreign bonds	1,331	1,351
Inflation-indexed bonds	3,042	2,679
High-yield	865	641
<b>Total fixed-income</b>	<b>7,076</b>	<b>7,365</b>
<b>Real assets:</b>		
Liquid commodities	4,217	3,988
Timber/agricultural land	2,620	1,737
Real estate	3,438	2,722
<b>Total real assets</b>	<b>10,275</b>	<b>8,447</b>
Absolute return	8,298	5,063
Cash	(2,296)	(2,071)
<b>TOTAL</b>	<b>\$ 43,048</b>	<b>\$ 40,753</b>

HMC seeks to add value to every element of the investment process, starting at the asset allocation level. Each year, HMC's Board of Directors and management team determine an appropriate "neutral" allocation (i.e., the Policy Portfolio) of capital across various markets given the University's desired return target and risk tolerance. Currently, capital is allocated across 12 (non-cash) asset classes. While significant changes are not generally made on an annual basis, the investment mix has evolved substantially over time.

Once the neutral allocation guidelines are determined, HMC's management is charged with the selection of appropriate investment vehicles. Both internal and external vehicles are employed to optimally deploy capital across all asset classes. This active use of specific investment strategies is aimed at delivering value over and above what can be realized by investing in a passive portfolio.

HMC uses a broad array of investments to generate value added. Examples include absolute return strategies, equity and fixed-income arbitrage, enhanced cash management, and tactical adjustments to the asset allocation. All of these investment management strategies help HMC to deliver appropriate risk-adjusted returns across

all of its asset classes, after all fees required to generate that return. The result is a diversified investment portfolio, managed in a responsive manner, and backed by effective risk management.

## 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. (A summary description of these different risk factors may be found on page 14.) 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 of Directors and management of HMC.

HMC's risk-mitigating measures include the use of risk limits as they pertain to investment strategies, single names (i.e., individual investments), and managers; assessment of correlations across investment strategies, managers, and asset classes; and counterparty credit evaluations, among others. By necessity, risk management is a dynamic process that takes into account general market developments, the proliferation of new instruments, and the changing nature of correlations across asset classes. This process is supported by 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 manager transparency and 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, efforts are being made to counteract the existing market tendency towards a lower level of information transparency.

Finally, in recognition of the increasing fluidity of the global economy, HMC has placed particular emphasis on potential cross-asset class correlations and market contagion in the global capital markets.



## 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. Value at risk is monitored and reviewed frequently by the Board of Directors and senior management to ensure that exposures are consistent with approved limits and guidelines. Stress and scenario tests are also conducted to determine how potential changes in market conditions could impact the fair 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 their creditworthiness.

**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 identifica-

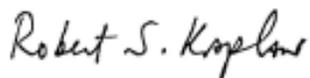
tion and prioritization of sources of liquidity. Cash is actively managed by a centralized staff responsible for understanding funding requirements and evaluating sources of liquidity. Liquidity measures are employed to ensure that the University maintains adequate liquidity and is prepared for periods 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.

closely monitoring the deterioration in certain underlying debt and equity markets and analyzing the potential impact of these declines on the ultimate realizable value of investments in the private equity portfolio and on certain of the investments held by HMC's hedge fund managers.

The last ten years have seen periods of extraordinary investment results. In light of recent market stress and dislocations, however, HMC is keenly aware that

returns produced in the next few years may fall well short of these robust historical levels. HMC will continue to aggressively pursue its key investment strategies, as well as appropriate risk management, in order to help the endowment navigate these challenging market conditions. Even with this said, HMC's expectations for the endowment's returns in fiscal 2009 and over the next several years are very cautious.



Robert S. Kaplan  
ACTING PRESIDENT AND CEO  
NOVEMBER 2007 THROUGH JUNE 30, 2008  
BOARD MEMBER EFFECTIVE JULY 1, 2008



Jane L. Mendillo  
PRESIDENT AND CEO  
EFFECTIVE JULY 1, 2008

October 5, 2008

## Report of Independent Auditors

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, 2008, 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 2007 financial statements, and in our report dated September 30, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the University changed the manner in which it accounts for defined benefit and other postretirement plans and limited partnerships held for investment in 2007.

*PricewaterhouseCoopers LLP*

October 5, 2008

**BALANCE SHEETS**

with summarized financial information as of June 30, 2007

In thousands of dollars	June 30	
	2008	2007
<b>ASSETS:</b>		
Cash	\$ 27,307	\$ 39,800
Receivables, net (Note 4)	249,359	207,999
Prepayments and deferred charges	121,834	98,718
Notes receivable, net (Note 5)	336,085	307,643
Pledges receivable, net (Note 6)	626,479	524,972
Fixed assets, net (Note 7)	4,951,329	4,524,162
Net retirement assets (Note 11)	293,560	303,282
Interests in trusts held by others (Notes 8 and 12)	341,990	358,294
Investment portfolio, at fair value (Notes 3 and 10)	50,756,944	46,616,888
Fair value of securities pledged to counterparties (Note 3)	6,398,168	5,341,587
<b>TOTAL ASSETS</b>	<b>64,103,055</b>	<b>58,323,345</b>
<b>LIABILITIES:</b>		
Accounts payable (Note 19)	413,674	370,496
Deposits and other liabilities (Note 7)	509,873	478,471
Securities lending and other liabilities associated with the investment portfolio (Note 3)	13,350,801	10,125,587
Liabilities due under split interest agreements (Note 9)	908,259	906,581
Bonds and notes payable (Note 10)	4,089,912	3,846,978
Accrued retirement obligations (Note 11)	607,427	545,698
Government loan advances (Note 5)	58,902	57,146
<b>TOTAL LIABILITIES</b>	<b>19,938,848</b>	<b>16,330,957</b>
<b>NET ASSETS</b>	<b>\$ 44,164,207</b>	<b>\$ 41,992,388</b>

	Unrestricted	Temporarily restricted	Permanently restricted	June 30	
				2008	2007
<b>NET ASSETS:</b>					
General Operating Account (Note 12)	\$ 5,367,793	\$ 1,118,604	\$ 88,655	\$ 6,575,052	\$ 6,438,611
Endowment (Note 8)	6,140,748	26,169,820	4,616,125	36,926,693	34,912,068
Split interest agreements (Note 9)	0	188,537	473,925	662,462	641,709
<b>TOTAL NET ASSETS</b>	<b>\$ 11,508,541</b>	<b>\$ 27,476,961</b>	<b>\$ 5,178,705</b>	<b>\$ 44,164,207</b>	<b>\$ 41,992,388</b>

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, 2007

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30	
				2008	2007
<b>REVENUE:</b>					
Student income:					
Undergraduate program	\$ 232,070			\$ 232,070	\$ 225,690
Graduate programs	357,071			357,071	345,443
Board and lodging	131,061			131,061	123,892
Continuing education and executive programs	213,919			213,919	193,164
Scholarships applied to student income (Note 13)	(252,126)			(252,126)	(230,562)
<b>Total student income</b>	<b>681,995</b>	<b>0</b>	<b>0</b>	<b>681,995</b>	<b>657,627</b>
Sponsored support (Notes 14 and 15):					
Federal government - direct costs	398,084			398,084	376,415
Federal government - indirect costs	136,870			136,870	138,355
Non-federal sponsors - direct costs	42,167	\$ 77,048		119,215	114,277
Non-federal sponsors - indirect costs	8,366	5,891		14,257	12,887
<b>Total sponsored support</b>	<b>585,487</b>	<b>82,939</b>	<b>0</b>	<b>668,426</b>	<b>641,934</b>
Gifts for current use (Note 15)					
	90,626	145,973		236,599	213,994
Investment income:					
Endowment income distributed for operations (Note 8)	204,244	997,063		1,201,307	1,043,755
Income on working capital investments distributed for operations	142,035	33,021		175,056	157,661
Interest received on student, faculty, and staff loans	8,047			8,047	6,962
<b>Total investment income</b>	<b>354,326</b>	<b>1,030,084</b>	<b>0</b>	<b>1,384,410</b>	<b>1,208,378</b>
Other operating income (Note 16)					
	510,887			510,887	488,573
Net assets released from restrictions	1,241,481	(1,241,481)		0	0
<b>TOTAL REVENUE</b>	<b>3,464,802</b>	<b>17,515</b>	<b>0</b>	<b>3,482,317</b>	<b>3,210,506</b>
<b>EXPENSES:</b>					
Salaries and wages	1,298,604			1,298,604	1,203,209
Employee benefits (Note 11)	362,067			362,067	341,962
Scholarships and other student awards (Note 13)	110,532			110,532	108,588
Supplies and equipment	235,031			235,031	216,549
Space and occupancy (Note 10)	411,095			411,095	405,156
Depreciation (Note 7)	246,654			246,654	214,318
Other expenses (Notes 10 and 17)	800,910			800,910	680,868
<b>TOTAL EXPENSES</b>	<b>3,464,893</b>	<b>0</b>	<b>0</b>	<b>3,464,893</b>	<b>3,170,650</b>
<b>NET REVENUE/(DEFICIT)</b>	<b>(91)</b>	<b>17,515</b>	<b>0</b>	<b>17,424</b>	<b>39,856</b>
<b>OTHER PROVISIONS AND CREDITS:</b>					
Increase in appreciation, net of operating distribution (Note 10)	68,321	640		68,961	884,404
Decrease in undistributed general investment income	(86,986)	(144,677)		(231,663)	(22,860)
Other changes (Note 11)	(29,299)			(29,299)	0
<b>TOTAL OTHER PROVISIONS AND CREDITS</b>	<b>(47,964)</b>	<b>(144,037)</b>	<b>0</b>	<b>(192,001)</b>	<b>861,544</b>
<b>CAPITAL CHANGES:</b>					
Increase in pledge balances (Note 6)		8,260		8,260	11,536
Increase in interests in trusts held by others (Note 12)		15,761		15,761	8,856
Capital gifts for loan funds and facilities (Note 15)		4,346	\$ 519	4,865	5,596
Transfers between the General Operating Account and endowment	176,810	91,780	(529)	268,061	76,333
Transfers from split interest agreements (Note 9)		12,841	1,230	14,071	7,476
Non-operating net assets released from restrictions	37,087	(38,366)	1,279	0	0
<b>TOTAL CAPITAL CHANGES</b>	<b>213,897</b>	<b>94,622</b>	<b>2,499</b>	<b>311,018</b>	<b>109,797</b>
<b>GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR</b>	<b>165,842</b>	<b>(31,900)</b>	<b>2,499</b>	<b>136,441</b>	<b>1,011,197</b>
Endowment net change during the year	344,323	1,390,519	279,783	2,014,625	5,692,638
Split interest agreement net change during the year (Note 9)		(7,484)	28,237	20,753	38,712
<b>NET CHANGE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE</b>	<b>510,165</b>	<b>1,351,135</b>	<b>310,519</b>	<b>2,171,819</b>	<b>6,742,547</b>
Cumulative effect of accounting change (Notes 2 and 11)				0	311,342
<b>NET CHANGE DURING THE YEAR</b>	<b>510,165</b>	<b>1,351,135</b>	<b>310,519</b>	<b>2,171,819</b>	<b>7,053,889</b>
Net assets, beginning of year	10,998,376	26,125,826	4,868,186	41,992,388	34,938,499
<b>NET ASSETS, end of year</b>	<b>\$ 11,508,541</b>	<b>\$ 27,476,961</b>	<b>\$ 5,178,705</b>	<b>\$ 44,164,207</b>	<b>\$ 41,992,388</b>

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, 2007

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended	
				June 30 2008	2007
Gifts for capital (Note 15)	\$ 57,004	\$ 77,224	\$ 201,831	\$ 336,059	\$ 277,626
Investment return (Notes 3 and 8):					
Income from general investments	41,958	206,175		248,133	450,178
Increase in realized and unrealized appreciation	426,196	2,206,646		2,632,842	6,049,375
Total investment return	468,154	2,412,821	0	2,880,975	6,499,553
Endowment income distributed for operations	(204,244)	(997,063)		(1,201,307)	(1,043,755)
Increase in undistributed general investment income	33,787	168,258		202,045	24,380
Net investment return after distributions	297,697	1,584,016	0	1,881,713	5,480,178
Transfers between endowment and the General Operating Account:					
Net transfers (to)/from unexpended endowment income	(84,568)	(98,336)	8,104	(174,800)	(56,185)
Gifts capitalized	627	4,811	170	5,608	4,285
Other transfers	(92,869)	1,745	(7,745)	(98,869)	(24,433)
Total transfers between endowment and the General Operating Account	(176,810)	(91,780)	529	(268,061)	(76,333)
Capitalization of split interest agreements (Note 9)		12,886	10,957	23,843	18,613
Change in pledge balances (Note 6)		8,601	84,646	93,247	(26,562)
Change in interests in trusts held by others (Note 8)		(8,683)	(23,382)	(32,065)	28,448
Other changes	(953)	(16,924)	(2,234)	(20,111)	(9,332)
Net assets released from restrictions	167,385	(174,821)	7,436	0	0
<b>NET CHANGE DURING THE YEAR</b>	<b>344,323</b>	<b>1,390,519</b>	<b>279,783</b>	<b>2,014,625</b>	<b>5,692,638</b>
Net assets of the endowment, beginning of year	5,796,425	24,779,301	4,336,342	34,912,068	29,219,430
<b>NET ASSETS OF THE ENDOWMENT, end of year</b>	<b>\$ 6,140,748</b>	<b>\$ 26,169,820</b>	<b>\$ 4,616,125</b>	<b>\$ 36,926,693</b>	<b>\$ 34,912,068</b>

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	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 2,171,819	\$ 7,053,889
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Cumulative effect of accounting change	0	(311,342)
Depreciation	246,654	214,318
Change in fair value of interest rate exchange agreements	317,084	(4,651)
Change in interests in trusts held by others	16,304	(37,304)
Increase in liabilities due under split interest agreements	1,678	213,198
Decrease in net retirement assets	9,722	0
Increase in accrued retirement obligations	61,729	77,158
Gain on investments, net	(3,170,532)	(7,286,777)
Gifts of securities	(93,636)	(110,649)
Gifts restricted for capital purposes	(274,874)	(206,673)
Changes in operating assets and liabilities:		
Receivables, net	(41,360)	14,794
Prepayments and deferred charges	(23,116)	(16,020)
Pledges receivable, net	(101,507)	15,651
Accounts payable	43,269	47,053
Deposits and other liabilities	31,402	68,696
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	<b>(805,364)</b>	<b>(268,659)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loans made to students, faculty, and staff	(56,515)	(56,338)
Payments received on student, faculty, and staff loans	28,657	34,681
Change in other notes receivable	(584)	311
Proceeds from the sales of gifts of securities	93,636	110,649
Proceeds from the sales and maturities of investments	72,683,691	41,386,657
Purchases of investments	(71,950,544)	(43,400,260)
Additions to fixed assets	(680,224)	(635,727)
<b>NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>118,117</b>	<b>(2,560,027)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in overdrafts included in accounts payable	6,312	(28,471)
Proceeds from the issuance of debt	1,737,010	1,122,628
Debt repayments	(1,494,076)	(197,897)
Gifts restricted for capital purposes	274,874	206,673
Change associated with securities lending agreements	148,878	1,721,773
Increase in government loan advances	1,756	186
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>674,754</b>	<b>2,824,892</b>
<b>NET CHANGE IN CASH</b>	<b>(12,493)</b>	<b>(3,794)</b>
Cash, beginning of year	39,800	43,594
<b>CASH, end of year</b>	<b>\$ 27,307</b>	<b>\$ 39,800</b>
Supplemental disclosure of cash flow information:		
Change in accounts payable related to fixed asset additions	\$ (6,403)	\$ 24,217
Cash paid for interest	145,391	158,881

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

## 1. UNIVERSITY ORGANIZATION

Harvard University (the “University”) is a private, not-for-profit institution of higher education with approximately 7,100 undergraduate and 12,870 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, the School of Engineering and Applied Sciences, the Division of Continuing Education, ten graduate and professional Schools, the Radcliffe Institute for Advanced Study, 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 significant affiliated organizations controlled by the University.

The financial statements include certain prior year summarized comparative information in total, not by net asset classification. This information is not presented in sufficient detail to conform 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, 2007, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation, including reclassifying gifts of securities from operating and financing to investing activities in the *Statements of Cash Flows*.

Funds transferred to the University on behalf of specific beneficiaries (agency funds) are recorded as assets and liabilities in the *Balance Sheets* and are not included in the *Statements of Changes in Net Assets*.

### 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 in the accompanying financial statements in the categories that follow:

**UNRESTRICTED** net assets are not subject to donor-imposed restrictions. Funds invested in fixed assets and unrestricted funds functioning as endowment comprise 65% of the University’s unrestricted net assets as of June 30, 2008. In addition, this category includes unrestricted gifts and endowment income balances, University-designated loan funds, and other unrestricted current funds.

**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.

**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 donor funds 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 teaching, conducting research, and the other programs and services of the University are the components of “Net revenue/(deficit)” in the *Statements of Changes in Net Assets with General Operating Account Detail*. Net revenue/ (deficit) is the measure of the University’s operating result.

### **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 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 limited 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, the primary senior health plan, and all health and dental 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 accounting pronouncements**

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value,

establishes a framework for measuring fair value under generally accepted accounting principles, and enhances disclosures regarding fair value measurements. FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) on the measurement date, in the principal or most advantageous market for the asset or liability, and in an orderly transaction between market participants. FAS 157 will be effective for the University’s financial statements issued for the year beginning on July 1, 2008 and is expected to impact the valuation of the University’s investments and receivables. Management is currently evaluating the impact the adoption of FAS 157 will have on the financial statements.

The FASB has issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (FAS 159). FAS 159 provides entities with the option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different fair value measurement attributes for similar types of assets and liabilities. FAS 159 will be effective for the University’s financial statements issued for the year beginning on July 1, 2008. Management does not believe the adoption of FAS 159 will have a material impact on the financial statements.

The FASB issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). This FSP also requires additional disclosures about an organization’s endowment funds (both donor-restricted and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP FAS 117-1 will be effective for the University’s financial statements issued for the year beginning on July 1, 2008. Management does not believe the adoption of FSP FAS 117-1 will have a material impact on the financial statements.

Effective July 1, 2007, the University adopted FASB Interpretation No. 48, *Accounting for Uncertainties in Income Taxes* (FIN 48). FIN 48 sets a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. The implementation of FIN 48 did not result in any unrecognized tax benefits in the accompanying financial statements. Tax positions for the open tax years as of June 30, 2008 were reviewed, and it was determined that no provision for uncertain tax positions is required.

The University implemented the requirements of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158) as of June 30, 2007. Under FAS 158, the funded status of each pension and other postretirement benefit plan as of June 30 is required to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). FAS 158 requires disclosure of the incremental effect of adopting the standard on certain individual line items of the *Balance Sheet*. In addition, the initial implementation of this standard is recognized as a cumulative effect of a change in an accounting principle in the fiscal 2007 *Statement of Changes in Net Assets with General Operating Account Detail*. The effect of FAS 158's adoption is discussed in *Note 11*.

Effective July 1, 2006, the University implemented Emerging Issues Task Force Issue 04-5, *Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole*

*General Partner and the Limited Partners Have Certain Rights* (EITF 04-5). Under EITF 04-5, a general partner is required to consolidate any partnership that it controls, including those interests in the partnerships in which it does not have ownership rights. A general partner is presumed to control a partnership unless the limited partners have certain rights to remove the general partner or other substantive rights to participate in partnership operations.

In accordance with EITF 04-5, the University has consolidated assets held in partnerships controlled by HMC. These assets are included in "Investment portfolio, at fair value" in the *Balance Sheets*. Liabilities of the consolidated entities and the minority interest related to the assets not owned by the University are included in "Securities lending and other liabilities associated with the investment portfolio" in the *Balance Sheets*. The effect of adopting EITF 04-5 is discussed in *Note 3*.

### 3. INVESTMENTS

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

A) Investments are presented at fair 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. Restrictions that are attached to a security are factored into the valuation of that security, reflective of the estimated impact of those restrictions. Non-exchange traded debt instruments are primarily valued using independent pricing services or by broker/dealers who actively make markets in these securities. Over-the-counter positions such as options contracts, forward contracts, exchange agreements, interest rate cap and floor agreements, and credit default swaps are primarily valued using models with externally verifiable inputs, or by using independent broker quotes. Investments in most asset classes are at least partially achieved through external managers. The majority of these external investments are not readily marketable and are valued utilizing the most current information provided by the general partner, subject to assessments that the value is representative of fair value. Direct private equity and real asset 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 funds and special situations, private equities, and certain real assets. Values for these instruments are typically 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 when cash collection is expected.

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 *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 fair value" in the *Balance Sheets*.

F) 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 fair value of the security loaned. Collateral is moved as required by fluctuations in the fair value of the security loaned.

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

The University's investments as of June 30, 2008 and 2007 are summarized in the following table (in thousands of dollars):

	2008	2007
Investment portfolio, at fair value:		
Pooled general investment assets <sup>1</sup>	\$ 50,000,889	\$ 45,536,634
Other investments <sup>2</sup>	1,086,414	1,093,529
Fair value of interest rate exchange agreements	(330,359)	(13,275)
Total investment portfolio, at fair value	50,756,944	46,616,888
Fair value of securities pledged to counterparties	6,398,168	5,341,587
Securities lending and other liabilities associated with the investment portfolio	(13,350,801)	(10,125,587)
<b>TOTAL INVESTMENTS<sup>3</sup></b>	<b>\$ 43,804,311</b>	<b>\$ 41,832,888</b>

Investments as of June 30, 2008 and 2007 comprised the following (in thousands of dollars):

	2008	2007
Pooled general investment net assets:		
General Operating Account	\$ 5,493,884	\$ 5,264,544
Endowment	36,193,970	34,251,729
Split interest agreements	1,065,564	986,906
Other internally designated funds	294,838	249,455
Total pooled general investment net assets	43,048,256	40,752,634
Other investments <sup>2</sup>	1,086,414	1,093,529
Fair value of interest rate exchange agreements	(330,359)	(13,275)
<b>TOTAL INVESTMENTS<sup>3</sup></b>	<b>\$ 43,804,311</b>	<b>\$ 41,832,888</b>

<sup>1</sup> Excludes securities pledged to counterparties.

<sup>2</sup> Includes split interest agreement assets of \$505,157 and \$561,384 as of June 30, 2008 and 2007, respectively.

<sup>3</sup> Includes cash equivalents that consist principally of funds that have maturities of 90 days or less. Cash equivalents classified as investments were \$1,782,533 and \$2,627,760 as of June 30, 2008 and 2007, respectively.

A summary of the University's total return on investments for fiscal 2008 and 2007 is presented below (in thousands of dollars):

	2008	2007
Return on pooled general investments:		
Realized and unrealized gains, net	\$ 3,180,799	\$ 7,135,715
Investment income	297,690	535,902
Total return on pooled general investments <sup>*</sup>	3,478,489	7,671,617
Return on other investments:		
Realized and unrealized gains/(losses), net	(10,267)	151,062
Investment income	26,674	35,644
Total return on other investments	16,407	186,706
Unrealized gain on interest rate exchange agreements	(317,084)	4,651
<b>TOTAL RETURN ON INVESTMENTS</b>	<b>\$ 3,177,812</b>	<b>\$ 7,862,974</b>

\* 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 values. Changes in the fair 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.

The changes in the unit value and income of participating units for the years ended June 30, 2008 and 2007 were as follows:

	2008	2007
Unit value, end of year	\$ 2,138.98	\$ 1,982.64
Unit value, beginning of year	1,982.64	1,635.04
Increase in unit value due to realized and unrealized appreciation	156.34	347.60
Income earned per unit on general investments	14.64	26.12
<b>TOTAL UNIT RETURN OF POOLED GENERAL INVESTMENTS*</b>	<b>\$ 170.98</b>	<b>\$ 373.72</b>
<b>TOTAL UNIT RETURN PERCENTAGE USING MONTHLY COMPOUNDING*</b>	<b>8.6%</b>	<b>23.0%</b>

\* 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 global equity, fixed-income, real estate, commodities, and private equity markets. The core investment portfolio is structured to closely mirror the market exposures defined by the Policy Portfolio. The Policy Portfolio is the long-term asset mix that is considered 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 in the asset or liability sections of the table on page 25.

The table on page 25 includes 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 was \$910.7 million and \$747.0 million as of June 30, 2008 and 2007, respectively. The fair value of collateral accepted by the University was \$3,927.6 million and \$2,822.6 million as of June 30, 2008 and 2007, respectively. The portion of this collateral that was sold or repledged was \$1,112.0 million and \$1,046.2 million as of

June 30, 2008 and 2007, respectively. 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 \$38,148.3 million and \$34,872.9 million as of June 30, 2008 and 2007, respectively.

As discussed in *Note 2*, in fiscal 2007, the University consolidated assets and liabilities held in partnerships controlled by HMC in accordance with EITF 04-5. The consolidation of these entities increased both the pooled general investment assets and liabilities shown in the table on page 25. Real asset investments increased by \$890.0 million and \$401.5 million as of June 30, 2008 and 2007, respectively. Other assets, consisting of cash, receivables, and fixed assets, increased by \$410.8 million and \$136.0 million as of June 30, 2008 and 2007. Other liabilities, consisting of accruals, payables, debt, and minority interests, increased by \$1,300.8 million and \$537.5 million as of June 30, 2008 and 2007, respectively.

The pooled general investment assets and liabilities as of June 30, 2008 and 2007 are summarized as follows (in thousands of dollars):

	2008	2007
<b>POOLED GENERAL INVESTMENT ASSETS:</b>		
Investment assets:		
Domestic equity and convertible securities	\$ 5,387,605	\$ 8,221,466
Foreign equity and convertible securities	2,625,784	4,258,479
Domestic fixed-income securities	4,552,457	5,469,470
Foreign fixed-income securities	1,582,035	1,249,067
Emerging market equity, debt, and options	4,205,072	3,372,244
High-yield securities	2,064,218	2,000,304
Absolute return funds and special situations	8,312,518	5,487,554
Private equities	5,505,604	4,178,397
Real assets <sup>1</sup>	12,564,948	10,038,467
Options	815,102	353,192
<b>Total investment assets<sup>2</sup></b>	<b>47,615,343</b>	<b>44,628,640</b>
Collateral advanced under security borrowing agreements <sup>3</sup>	2,969,522	2,450,224
Cash and short-term investments	1,476,434	2,523,657
Other assets <sup>4</sup>	4,337,758	1,275,700
<b>TOTAL POOLED GENERAL INVESTMENT ASSETS</b>	<b>56,399,057</b>	<b>50,878,221</b>
<b>POOLED GENERAL INVESTMENT LIABILITIES:</b>		
Investment liabilities:		
Equity and convertible securities	794,442	1,044,560
Fixed-income securities	2,435,950	1,714,450
Real assets <sup>1</sup>	2,409	
Options	685,889	300,968
<b>Total investment liabilities</b>	<b>3,918,690</b>	<b>3,059,978</b>
Cash collateral held under security lending agreements <sup>5</sup>	5,796,982	5,128,807
Other liabilities <sup>6</sup>	3,635,129	1,936,802
<b>TOTAL POOLED GENERAL INVESTMENT LIABILITIES</b>	<b>13,350,801</b>	<b>10,125,587</b>
<b>TOTAL POOLED GENERAL INVESTMENT NET ASSETS</b>	<b>\$ 43,048,256</b>	<b>\$ 40,752,634</b>

<sup>1</sup> Real assets include investments in commodities, real estate, and inflation-indexed bonds.

<sup>2</sup> Securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities were \$6,398,168 and \$5,341,587 as of June 30, 2008 and 2007, respectively.

<sup>3</sup> The collateral advanced under security borrowing agreements is in the form of cash.

<sup>4</sup> As of June 30, 2008, other assets consisted primarily of accounts receivable for the sale of securities of \$3,775,723, of which gross receivables relating to off-balance sheet instruments were \$1,088,741. As of June 30, 2007, other assets consisted primarily of accounts receivable for the sale of securities of \$1,103,913, of which gross receivables relating to off-balance sheet instruments were \$294,374.

<sup>5</sup> The minimum collateral the University requires by contract on each stock loan and repurchase agreement is 100% of the fair value of the security loaned. Collateral is moved as required by fluctuations in the fair value of the security loaned.

<sup>6</sup> As of June 30, 2008, other liabilities consisted primarily of accounts payable for undistributed income and the purchase of securities of \$2,268,624, of which gross payables relating to off-balance sheet instruments were \$430,994. As of June 30, 2007, other liabilities consisted primarily of accounts payable for undistributed income and the purchase of securities of \$1,363,483, of which gross payables relating to off-balance sheet instruments were \$117,001.

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, credit default swaps, 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 and in the arbitrage strategies, with the goal of enhancing the returns of certain asset classes without increasing the market risk to the underlying asset class. 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 manages exposure to 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 delta-weighted notional amounts), net ending fair value, net average fair value (an average of the five quarters ending June 30, 2008), and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 2008 (in thousands of dollars):

	Market exposure		Net ending fair value of off-balance sheet positions	Net average fair value	Credit exposure*
	Long	Short			
Equity instruments:					
Equity futures	\$ 413,617	\$ (530,773)	\$ 16,257	\$ 7,683	\$ 30,149
Equity options	10,615	(1,219)	12,048	7,257	
Equity exchange agreements	3,472,873	(527,118)	(74,119)	20,506	274
Total equity instruments	3,897,105	(1,059,110)	(45,814)	35,446	30,423
Fixed-income instruments:					
Fixed-income futures	499,630	(635,951)	1,871	12,823	9,590
Fixed-income options	4,562,112	(3,018,565)	(59,256)	(4,539)	963
Interest rate exchange agreements	13,457,708	(11,826,808)	(50,686)	(26,523)	1,180
Interest rate caps and floors	6,396,100	(7,754,459)	127,653	107,683	10,697
Total fixed-income instruments	24,915,550	(23,235,783)	19,582	89,444	22,430
Commodity instruments:					
Commodity options				(4,157)	
Commodity exchange agreements	3,702,822				12,353
Total commodity instruments	3,702,822	0	0	(4,157)	12,353
Currency instruments:					
Currency forwards	16,369,315	(16,358,151)	11,164	4,048	912
Currency options	1,043,132	(1,099,194)	(2,287)	(10,116)	4,256
Currency exchange agreements	115,530	(109,691)	1,932	1,099	259
Total currency instruments	17,527,977	(17,567,036)	10,809	(4,969)	5,427
Credit instruments	2,007,666	(7,918,917)	622,174	485,467	54,920
<b>TOTAL</b>	<b>\$ 52,051,120</b>	<b>\$ (49,780,846)</b>	<b>\$ 606,751</b>	<b>\$ 601,231</b>	<b>\$ 125,553</b>

\* Credit exposure represents cash or securities advanced by the University to meet legal margin requirements in connection with future, forward, and option contracts, as well as exposure to counterparties where gains on financial instruments with off-balance sheet risk exceed collateral held by the University.

The following table summarizes the market exposure (expressed in delta-weighted notional amounts), net ending fair value, net average fair value (an average of the five

quarters ending June 30, 2007), and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 2007 (in thousands of dollars):

	Market exposure		Net ending fair value of off-balance sheet positions	Net average fair value	Credit exposure*
	Long	Short			
<b>Equity instruments:</b>					
Equity futures	\$ 1,314,137	\$ (301,633)	\$ 25,692	\$ 5,760	\$ 52,305
Equity options	25,262	(110,801)	12,561	24,823	1,559
Equity exchange agreements	4,134,123	(110,003)	59,499	23,391	7,616
<b>Total equity instruments</b>	<b>5,473,522</b>	<b>(522,437)</b>	<b>97,752</b>	<b>53,974</b>	<b>61,480</b>
<b>Fixed-income instruments:</b>					
Fixed-income futures	1,854,864	(1,164,495)	970	5,578	21,233
Fixed-income options	9,250,069	(7,934,386)	(9,063)	558	2,208
Interest rate exchange agreements	2,474,545	(1,437,842)	8,176	(7,671)	481
Interest rate caps and floors	9,883,207	(12,929,576)	55,024	20,228	16,605
<b>Total fixed-income instruments</b>	<b>23,462,685</b>	<b>(23,466,299)</b>	<b>55,107</b>	<b>18,693</b>	<b>40,527</b>
<b>Commodity instruments:</b>					
Commodity futures					3,968
Commodity options		(10,280)	(10,280)	(3,042)	
Commodity exchange agreements	3,293,716				32,492
<b>Total commodity instruments</b>	<b>3,293,716</b>	<b>(10,280)</b>	<b>(10,280)</b>	<b>(3,042)</b>	<b>36,460</b>
<b>Currency instruments:</b>					
Currency forwards	13,501,133	(13,537,807)	(36,674)	(26,258)	22,717
Currency options	259,923	(48,594)	(19,330)	(4,180)	13,961
Currency exchange agreements	2,512	(3,724)	137		137
<b>Total currency instruments</b>	<b>13,763,568</b>	<b>(13,590,125)</b>	<b>(55,867)</b>	<b>(30,438)</b>	<b>36,815</b>
Credit instruments	975,363	(4,847,940)	15,264	(9,452)	43,720
<b>TOTAL</b>	<b>\$ 46,968,854</b>	<b>\$ (42,437,081)</b>	<b>\$ 101,976</b>	<b>\$ 29,735</b>	<b>\$ 219,002</b>

\* Credit exposure represents cash or securities advanced by the University to meet legal margin requirements in connection with future, forward, and option contracts, as well as exposure to counterparties where gains on financial instruments with off-balance sheet risk exceed collateral held by the University.

Financial instruments with off-balance sheet risk are recorded in the table on page 25 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. Market exposure represents the notional value of the off-balance sheet instrument adjusted for its correlation to its underlying index or asset. 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 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 the replacements of the agreements. 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 include commitments to make periodic cash contributions totaling approximately \$11,028.3 million through fiscal 2018.

#### 4. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of \$11.8 million and \$3.7 million as of June 30, 2008 and 2007, respectively, were as follows (in thousands of dollars):

	2008	2007
Investment income	\$ 67,876	\$ 37,724
Federal sponsored support	39,519	41,072
Non-federal sponsored support	9,841	5,677
Tuition and fees	9,751	10,246
Publications	31,274	23,086
Rent	2,005	9,844
Gift receipts	11,159	15,246
Executive education	23,398	21,615
Other	54,536	43,489
<b>TOTAL RECEIVABLES, NET</b>	<b>\$ 249,359</b>	<b>\$ 207,999</b>

#### 5. NOTES RECEIVABLE

Notes receivable, net of reserves for doubtful accounts of \$7.6 million and \$7.5 million as of June 30, 2008 and 2007, respectively, were as follows (in thousands of dollars):

	2008	2007
Student loans:		
Government revolving	\$ 72,315	\$ 63,391
Institutional	75,703	67,557
Federally guaranteed	2,423	3,085
Total student loans	150,441	134,033
Faculty and staff	156,580	145,129
Other	29,064	28,481
<b>TOTAL NOTES RECEIVABLE, NET</b>	<b>\$ 336,085</b>	<b>\$ 307,643</b>

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled \$58.9 million and \$57.1 million as of June 30, 2008 and 2007, 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 primarily contain 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 their fair value.

## 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, 2008 and 2007 are expected to be realized as follows (in thousands of dollars):

	2008	2007
Within one year	\$ 103,484	\$ 86,999
Between one and five years	413,936	348,000
More than five years	229,019	172,337
Less: discount and allowance for uncollectible pledges	(119,960)	(82,364)
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 626,479</b>	<b>\$ 524,972</b>

Discounts of \$64.5 million and \$48.1 million for the years ended June 30, 2008 and 2007, respectively, were calculated using discount factors based on the appropriate U.S. Treasury Note rates.

Pledges receivable as of June 30, 2008 and 2007 have been designated for the following purposes (in thousands of dollars):

	2008	2007
General Operating Account balances:		
Gifts for current use	\$ 150,768	\$ 119,965
Non-federal sponsored grants	88,388	112,533
Loan funds and facilities	16,914	15,312
Total General Operating Account balances	256,070	247,810
Endowment	370,409	277,162
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 626,479</b>	<b>\$ 524,972</b>

Because of uncertainties with regard to realizability and valuation, bequest intentions and other conditional promises are only recognized as assets if and when the specified conditions are met. Non-bequest conditional pledges totaled \$24.6 million and \$1.9 million as of June 30, 2008 and 2007, respectively.

## 7. FIXED ASSETS

Fixed assets are reported 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, 2008 and 2007 are summarized as follows (in thousands of dollars):

	2008	2007	Estimated useful life (in years)
Research facilities	\$ 1,812,063	\$ 1,480,450	*
Housing facilities	1,109,710	933,052	35
Classrooms and offices	1,107,330	1,065,829	35
Service facilities	411,146	304,753	35
Libraries	384,993	374,231	35
Other facilities	372,878	360,989	35
Museums and assembly facilities	261,449	254,977	35
Athletic facilities	145,783	129,157	35
Land	597,910	591,932	N/A
Construction in progress	460,256	585,250	N/A
Equipment	634,021	544,314	**
Total fixed assets, at cost	7,297,539	6,624,934	
Less: accumulated depreciation	(2,346,210)	(2,100,772)	
<b>TOTAL FIXED ASSETS, NET</b>	<b>\$ 4,951,329</b>	<b>\$ 4,524,162</b>	

\* Estimated useful lives of components range from 10 to 45 years.

\*\* Estimated useful lives of equipment range from 3 to 8 years.

Certain University facilities are subject to restrictions related to use, structural modifications, and ownership transfer. Included in the fixed asset balances are restricted facilities with a net book value of \$171.2 million and \$172.7 million as of June 30, 2008 and 2007, respectively.

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

Equipment fixed assets include general and scientific equipment, computers, software, furniture, and vehicles.

The University recognized adjustments to increase its asset retirement obligation of \$4.1 million and \$5.2 million in fiscal 2008 and 2007, respectively. The liability is associated with buildings that are fully depreciated, therefore no adjustment was made to the cost of the assets. The asset retirement obligation of \$42.6 million and \$38.5 million is included in "Deposits and other liabilities" in the *Balance Sheets* as of June 30, 2008 and 2007, respectively.

## 8. ENDOWMENT

The University's endowment consists of approximately 11,600 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 fair 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.

The endowment consisted of the following as of June 30, 2008 and 2007 (in thousands of dollars):

	2008			Total	2007
	Unrestricted	Temporarily restricted	Permanently restricted		
Endowment funds		\$ 22,897,649	\$ 4,033,759	\$ 26,931,408	\$ 25,479,215
Funds functioning as endowment	\$ 6,140,748	3,187,929		9,328,677	8,827,427
Pledge balances		65,800	304,609	370,409	277,162
Interests in trusts held by others		18,442	277,757	296,199	328,264
<b>TOTAL ENDOWMENT</b>	<b>\$ 6,140,748</b>	<b>\$ 26,169,820</b>	<b>\$ 4,616,125</b>	<b>\$ 36,926,693</b>	<b>\$ 34,912,068</b>

The University's endowment distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and to generate a predictable stream of available income. Each fall, the Corporation approves the endowment distribution rate (the "endowment distribution"), stated in dollars per unit, for the following fiscal year. The endowment distribution is not based on a specific formula, nor is it directly tied to current investment returns. Rather, it reflects expectations about long-term returns, inflation rates, and the University's ongoing spending needs. For fiscal 2008, the per unit endowment distribution approved by the Corporation (prior to decapitalizations described below) was equal to 4.1% of fair value as of the beginning of the fiscal year.

In addition to the endowment distribution, the Corporation approves certain decapitalizations from the endowment to support strategic, mission-critical activities or objectives that are typically one-time or time-limited. During fiscal 2008, these additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 4.8%. The following table displays the total return on endowment, the endowment distribution rate per unit and as a percentage of fair value as of the beginning of each fiscal year, and the aggregate payout rate (inclusive of decapitalizations) for each of the past five years.

Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of endowment distributions 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 2008 and 2007 distributions totaled \$919.8 million and \$709.7 million, respectively.

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

Fiscal year	Endowment total return % <sup>1</sup>	Distribution rate <sup>2</sup>		Aggregate payout rate <sup>3</sup>
		Per unit	As a % of fair value	As a % of fair value
2008	8.6%	\$ 81.96	4.1%	4.8%
2007	23.0	69.73	4.3	4.6
2006	16.7	60.99	4.3	4.2
2005	19.2	54.17	4.5	4.5
2004	21.1	49.70	4.9	4.9

<sup>1</sup> The endowment total return % is calculated in relation to pooled general investments, is net of all fees and expenses, and includes the impact of revenue-sharing agreements with certain fund managers.

<sup>2</sup> This data is based upon the per unit distribution rate established by the Corporation for each fiscal year.

<sup>3</sup> Aggregate payout rate percentages are based upon actual endowment distributions in combination with approved decapitalizations of endowment principal made during the fiscal year.

## 9. SPLIT INTEREST AGREEMENTS

Under split interest agreements, donors enter into trust arrangements with the University in which the University receives benefits that are shared with other beneficiaries and institutions. Split interest agreement investment assets are recorded at fair value, and liabilities are recorded at the present value of estimated future payments due to beneficiaries and other institutions.

The changes in split interest agreement net assets for fiscal 2008 and 2007 were as follows (in thousands of dollars):

	2008		2007	
	Temporarily restricted	Permanently restricted	Total	Total
Gifts for capital (Note 15)*	\$ 8,695	\$ 19,794	\$ 28,489	\$ 35,174
Investment return:				
Investment income	8,035	17,401	25,436	30,504
Increase in realized and unrealized appreciation	12,164	26,345	38,509	245,804
Total investment return	20,199	43,746	63,945	276,308
Payments to annuitants	(22,381)	(48,474)	(70,855)	(78,475)
Transfers to endowment	(12,886)	(10,957)	(23,843)	(18,613)
Transfers to the General Operating Account	(12,841)	(1,230)	(14,071)	(7,476)
Change in liabilities and other adjustments	11,730	25,358	37,088	(168,206)
<b>NET CHANGE DURING THE YEAR</b>	<b>(7,484)</b>	<b>28,237</b>	<b>20,753</b>	<b>38,712</b>
Total split interest agreement net assets, beginning of year	196,021	445,688	641,709	602,997
<b>TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year</b>	<b>\$ 188,537</b>	<b>\$ 473,925</b>	<b>\$ 662,462</b>	<b>\$ 641,709</b>

\* Shown at net present value. The undiscounted value of these gifts was \$65,771 and \$89,928 for the years ended June 30, 2008 and 2007, respectively.

Split interest agreement net assets as of June 30, 2008 and 2007 consisted of the following (in thousands of dollars):

	2008	2007
Split interest agreement investments (Note 3):		
Charitable remainder trusts	\$ 948,446	\$ 926,741
Charitable lead trusts	121,400	118,949
Charitable gift annuities	399,295	385,885
Pooled income funds	101,580	116,715
Total split interest agreement investments	1,570,721	1,548,290
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	(794,983)	(785,032)
Amounts due to other institutions	(113,276)	(121,549)
Total liabilities due under split interest agreements	(908,259)	(906,581)
<b>TOTAL SPLIT INTEREST AGREEMENT NET ASSETS</b>	<b>\$ 662,462</b>	<b>\$ 641,709</b>

## 10. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2008 and 2007 were as follows (in thousands of dollars):

	Fiscal year of issue	Remaining years to maturity	One-year effective interest rate	Outstanding principal	
				2008	2007
<b>Tax-exempt bonds and notes payable:</b>					
Variable-rate bonds and notes payable:					
Series L - weekly	1990	16	4.4%	\$ 71,140	\$ 71,140
Series R - daily	2000-2006	41	2.4	131,200	131,200
Series Y - weekly	2000	27	5.2	117,905	117,905
Series BB - weekly	2001	26	2.8	196,700	196,700
Series HH - weekly	2004	25	5.2	92,235	92,235
Series GG1 - weekly	2005	21	4.4	205,935	205,935
Series 2006B1 - daily	2007	28	3.3	112,900	112,900
Series 2006B2 - weekly	2007	28	3.1	112,900	112,900
Commercial paper	Various	Various*	2.8	533,109	546,895
<b>Total variable-rate bonds and notes payable</b>			3.4	<b>1,574,024</b>	<b>1,587,810</b>
Fixed-rate bonds:					
Series N	1992	12	6.3	79,078**	79,002
Series Z	2001	8	5.1	77,388**	85,413
Series AA	2001	1	5.5	5,154**	10,213
Series DD	2002	27	5.0	134,982**	134,949
Series FF	2003	29	5.1	275,990**	275,984
Series 2005A	2005	28	5.0	93,713**	93,877
Series 2005B	2006	24	5.0	105,047**	105,234
Series 2005C	2006	27	5.0	129,998**	130,155
Series 2008B	2008	30	5.0	216,886**	
<b>Total fixed-rate bonds</b>			5.2	<b>1,118,236</b>	<b>914,827</b>
<b>Total tax-exempt bonds and notes payable</b>			<b>4.0</b>	<b>2,692,260</b>	<b>2,502,637</b>
<b>Taxable bonds and notes payable:</b>					
Series GG2	2005	5	4.7	45,745	45,745
Series 2006A	2006	29	6.3	401,372**	401,350
Series 2008A	2008	30	4.9	387,606**	
Series 2008C	2008	10	5.3	125,205	
Commercial paper	Various	Various*	5.1	347,652	807,079
<b>Total taxable bonds and notes payable</b>			<b>5.4</b>	<b>1,307,580</b>	<b>1,254,174</b>
Other notes payable	Various	Various	Various	90,072	90,167
<b>TOTAL BONDS AND NOTES PAYABLE</b>			<b>4.6%</b>	<b>\$ 4,089,912</b>	<b>\$ 3,846,978</b>

\* All commercial paper will mature in fiscal 2009.

\*\* Series N, DD, FF, 2006A, and 2008A principal are net of \$0.9 million, \$0.9 million, \$0.2 million, \$0.6 million, and \$0.4 million of discounts, respectively. Series Z, AA, 2005A, 2005B, 2005C, and 2008B principal include premiums of \$1.2 million, \$0.2 million, \$4.6 million, \$4.5 million, \$4.1 million, and \$8.0 million, respectively.

Interest expense, recorded in both "Space and occupancy" and "Other expenses" in the *Statements of Changes in Net Assets with General Operating Account Detail*, was \$146.1 million and \$162.8 million for fiscal 2008 and 2007, respectively. Excluding maturity of commercial paper and unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2009	\$ 22,088
2010	17,846
2011	16,563
2012	17,353
2013	188,258
Thereafter	2,927,460
<b>TOTAL PRINCIPAL PAYMENTS</b>	<b>\$ 3,189,568</b>

In fiscal 2008, the University issued \$388.0 million of taxable fixed-rate Series 2008A bonds. The series was comprised of a \$145.0 million issue that will mature in 2013 and a \$243.0 million issue that will mature in 2038. Also in fiscal 2008, the University issued \$208.9 million of tax-exempt fixed-rate Series 2008B bonds that will mature in 2038. Finally, in fiscal 2008, the University issued \$125.2 million of taxable fixed-rate Series 2008C bonds that will mature in 2018. All bond issues were used to finance capital projects and acquisitions initially funded by the University's commercial paper programs.

In fiscal 2008, the University reauthorized its tax-exempt commercial paper program.

In fiscal 2007, the University reauthorized and increased the capacity of its taxable commercial paper program to \$1.0 billion from \$650.0 million. Also in fiscal 2007, the University issued \$225.8 million of tax-exempt daily and weekly variable-rate reset Series 2006B bonds to finance graduate housing.

Based on quoted market prices, the estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was \$4,022.3 million and \$3,813.3 million as of June 30, 2008 and 2007, 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 of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered.

### 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 \$3,524.7 million and \$(330.4) million, respectively, as of June 30, 2008 and \$3,533.9 million and \$(13.3) million, respectively, as of June 30, 2007.

The fair value of these agreements is included in "Investment portfolio, at fair value" in the *Balance Sheets*. The loss realized from the monthly settling of these agreements was \$15.6 million and \$7.9 million for fiscal 2008 and 2007, respectively. All unrealized and realized gains and losses from interest rate exchange agreements are included in "Increase in appreciation, net of operating distribution" in the *Statements of Changes in Net Assets with General Operating Account Detail*.

## 11. EMPLOYEE BENEFITS

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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 fair values of the trust's assets were \$879.9 million and \$897.0 million as of June 30, 2008 and 2007, respectively. In addition, the University internally designated and invested \$40.0 million and \$36.7 million as of June 30, 2008 and 2007, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of \$94.7 million and \$87.4 million for fiscal 2008 and 2007, 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, 2008, the University had internally designated and invested \$248.3 million to fund the postretirement health benefit accrued liability of \$607.4 million. As of June 30, 2007, the University had internally designated and invested \$206.7 million to fund an accrued liability of \$545.7 million.

The following table provides a reconciliation of the benefit obligation for the University for fiscal 2008 and 2007 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2008	2007	2008	2007
Reconciliation of benefit obligation:				
Benefit obligation, beginning of year	\$ 593,682	\$ 583,501	\$ 545,698	\$ 505,104
Service cost	12,121	12,819	25,564	23,353
Interest cost	36,868	37,399	35,164	31,822
Plan participants' contributions			1,927	1,819
Federal subsidy on benefits paid			1,528	1,231
Plan amendments	11			
Gross benefits paid	(38,529)	(39,298)	(18,981)	(17,829)
Actuarial (gain)/loss	(17,844)	(739)	16,527	198
<b>BENEFIT OBLIGATION, end of year</b>	<b>\$ 586,309</b>	<b>\$ 593,682</b>	<b>\$ 607,427</b>	<b>\$ 545,698</b>
Accumulated benefit obligation	\$ 497,387	\$ 511,923	N/A	N/A
Weighted-average assumptions used to determine benefit obligation at end of year:				
Discount rate	6.50%	6.25%	6.50%	6.25%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Health care cost trend rate:				
– Initial rate	N/A	N/A	8.50%	9.00%
– Ultimate rate	N/A	N/A	5.00%	5.00%
– Years to ultimate rate	N/A	N/A	7	4
Effect of one-percentage-point change in assumed health care cost trend rate on postretirement benefit obligation:				
– Increase	N/A	N/A	\$ 109,066	\$ 95,593
– Decrease	N/A	N/A	\$ (86,415)	\$ (76,066)

The following table provides a reconciliation of the fair value of plan assets for the University for fiscal 2008 and 2007 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2008	2007	2008	2007
Reconciliation of fair value of plan assets:				
Fair value of plan assets, beginning of year	\$ 896,964	\$ 776,442	\$ 0	\$ 0
Actual return on plan assets	21,434	159,820		
Gross benefits paid	(38,529)	(39,298)		
<b>FAIR VALUE OF PLAN ASSETS, end of year</b>	<b>\$ 879,869</b>	<b>\$ 896,964</b>	<b>\$ 0</b>	<b>\$ 0</b>

The actual asset allocation of the investment portfolio for the pension plan for fiscal 2008 and 2007, along with target allocations for fiscal 2009, are as follows:

	2009 Target	2008 Actual	2007 Actual
Asset allocation by category for pension plan:			
Equity securities	45.0%	48.7%	48.1%
Fixed-income securities	17.0	19.6	21.1
Real estate	9.0	6.8	6.9
Other	29.0	24.9	23.9
<b>TOTAL OF ASSET ALLOCATION CATEGORIES</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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 following tables provide the funded status at the end of the year and the related amounts recognized in the *Balance Sheets* for the University for fiscal 2008 and 2007 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2008	2007	2008	2007
Funded status, end of year:				
Fair value of plan assets	\$ 879,869	\$ 896,964		
Benefit obligations	(586,309)	(593,682)	\$ (607,427)	\$ (545,698)
<b>FUNDED STATUS, end of year</b>	<b>293,560</b>	<b>303,282</b>	<b>(607,427)</b>	<b>(545,698)</b>

Amounts recognized in the *Balance Sheets*:

Net retirement assets	\$ 293,560	\$ 303,282		
Accrued retirement obligations			\$ (607,427)	\$ (545,698)
<b>TOTAL AMOUNTS RECOGNIZED IN THE BALANCE SHEETS</b>	<b>\$ 293,560</b>	<b>\$ 303,282</b>	<b>\$ (607,427)</b>	<b>\$ (545,698)</b>

Amounts recognized in unrestricted net assets:

Net actuarial (gain)/loss	\$ (304,565)	\$ (320,749)	\$ (2,988)	\$ (14,521)
Prior service (credit)/cost	(14,829)	(19,215)	4,974	6,770
Transition (asset)/obligation			30,311	36,373
<b>TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS</b>	<b>\$ (319,394)</b>	<b>\$ (339,964)</b>	<b>\$ 32,297</b>	<b>\$ 28,622</b>

Amounts recognized in changes in unrestricted net assets:

FAS 158 change in accounting principle		\$ 339,964		\$ (28,622)
New prior service (credit)/cost	\$ 11			
New net actuarial (gain)/loss	11,728		\$ 11,253	
Amortization of:				
transition asset/(obligation)			(6,062)	
prior service credit/(cost)	4,375		(1,796)	
actuarial gain/(loss)	4,456		280	
<b>TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS</b>	<b>\$ 20,570</b>	<b>\$ 339,964</b>	<b>\$ 3,675</b>	<b>\$ (28,622)</b>

The fiscal 2008 total amount recognized in changes in unrestricted net assets of \$24.2 million is included in "Other changes" in the *Statement of Changes in Net Assets with General Operating Account Detail*.

There are no expected employer contributions for fiscal 2009 to funded pension or other benefit plans. The following table summarizes expected benefit payments and subsidies for pension and other postretirement benefits for the University (in thousands of dollars):

Fiscal year	Expected benefit payments		Expected Medicare Part D subsidies
	Pension	Postretirement health	
2009	\$ 32,046	\$ 20,082	\$ 1,908
2010	37,822	23,195	2,216
2011	38,721	25,538	2,426
2012	39,854	28,084	2,664
2013	41,272	30,700	2,957
2014-2018	229,193	197,542	19,853

The following table summarizes the net periodic benefit (income)/cost for the University for fiscal 2008 and 2007 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2008	2007	2008	2007
Components of net periodic benefit (income)/cost:				
Service cost	\$ 12,121	\$ 12,819	\$ 25,564	\$ 23,353
Interest cost	36,868	37,399	35,164	31,822
Expected return on plan assets	(54,327)	(48,512)	(12,886)	(10,111)
Amortization of the:				
Actuarial (gain)/loss	(4,456)	(2,857)	(280)	(77)
Prior service (credit)/cost	(4,375)	(4,696)	1,796	2,046
Transition (asset)/obligation			6,062	6,062
Net periodic benefit (income)/cost	(14,169)	(5,847)	55,420	53,095
Additional designated funding	3,321	7,417	2,634	22,493
<b>TOTAL NET PERIODIC BENEFIT (INCOME)/COST</b>	<b>\$ (10,848)</b>	<b>\$ 1,570</b>	<b>\$ 58,054</b>	<b>\$ 75,588</b>

Weighted-average assumptions used to determine net periodic benefit (income)/cost:

Discount rate	6.25%	6.25%	6.25%	6.25%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Health care cost trend rate:				
– Initial rate	N/A	N/A	9.00%	8.00%
– Ultimate rate	N/A	N/A	5.00%	5.00%
– Years to ultimate rate	N/A	N/A	4	3

Effect of one-percentage-point change in assumed health care cost trend rate on aggregate service and interest cost:

– Increase	N/A	N/A	\$ 13,778	\$ 12,607
– Decrease	N/A	N/A	\$ (10,576)	\$ (9,664)

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 estimated amounts that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal 2009 are as follows (in thousands of dollars):

	Pension benefits	Postretirement health benefits
Amounts amortized:		
Actuarial (gain)/loss	\$ (10,103)	\$ (252)
Prior service (credit)/cost	(4,374)	1,411
Transition (asset)/obligation		6,062
<b>TOTAL AMOUNTS AMORTIZED</b>	<b>\$ (14,477)</b>	<b>\$ 7,221</b>

The University's adoption of FAS 158, discussed in *Note 2*, had the following incremental effect on retirement benefit-related amounts reported in the *Balance Sheet* as of June 30, 2007 (in thousands of dollars):

	Balances before adopting FAS 158	Adjustments to adopt FAS 158	Balances after adopting FAS 158
Net retirement assets	\$ 0	\$ 303,282	\$ 303,282
Accrued retirement obligations	553,758	(8,060)	545,698
Unrestricted net assets	10,687,034	311,342*	10,998,376

\* The \$311.3 million change in unrestricted net assets is presented as "Cumulative effect of accounting change" in the fiscal 2007 Statement of Changes in Net Assets with General Operating Account Detail.

## 12. GENERAL OPERATING ACCOUNT

The General Operating Account (GOA) consists of the general or current funds of the University as well as the assets and liabilities 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, 2008 and 2007 are summarized as follows (in thousands of dollars):

	2008			Total	2007 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Departmental balances:					
Unexpended endowment income	\$ 83,936	\$ 481,620		\$ 565,556	\$ 673,104
Unexpended gift balances	63,262	262,678		325,940	297,720
Pledge balances		236,919		236,919	223,469
Interests in trusts held by others		42,537		42,537	25,037
Loan funds	30,741		\$ 88,655	119,396	116,116
Funds for construction		9,162		9,162	13,171
Funds invested in fixed assets	1,326,368			1,326,368	1,360,383
Other departmental purposes	764,412			764,412	666,885
Total departmental balances	2,268,719	1,032,916	88,655	3,390,290	3,375,885
University balances*	3,099,074	85,688		3,184,762	3,062,726
<b>TOTAL GOA NET ASSET BALANCES</b>	<b>\$ 5,367,793</b>	<b>\$ 1,118,604</b>	<b>\$ 88,655</b>	<b>\$ 6,575,052</b>	<b>\$ 6,438,611</b>

\* Includes interests in trusts held by others of \$3,254 and \$4,993 for the years ended June 30, 2008 and 2007, respectively.

### 13. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2008 and 2007 is summarized as follows (in thousands of dollars):

	2008	2007
Scholarships and other student awards:		
Scholarships applied to student income	\$ 252,126	\$ 230,562
Scholarships and other student awards paid directly to students	110,532	108,588
Total scholarships and other student awards	362,658	339,150
Student employment	56,784	61,233
Student loans	32,635	30,553
Agency financial aid*	12,609	12,887
<b>TOTAL STUDENT FINANCIAL AID</b>	<b>\$ 464,686</b>	<b>\$ 443,823</b>

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

Approximately 71% and 65% of total scholarships and other student awards were funded by gifts, endowment income, and sponsored support in fiscal 2008 and 2007, respectively.

### 14. SPONSORED SUPPORT

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored projects to the University were \$535.0 million and \$514.8 million in fiscal 2008 and 2007, respectively. The University's principal source of federal sponsored 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.

Sponsored 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. Predetermined federal indirect cost rates have been established for the University Area, the Medical School (including the School of Dental Medicine), and the School of Public Health through fiscal 2010. Funds received for federally sponsored 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 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 grants, and gifts for capital are classified as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications.

Gifts received for the years ended June 30, 2008 and 2007 are summarized as follows (in thousands of dollars):

	2008	2007
Gifts for current use	\$ 236,599	\$ 213,994
Non-federal sponsored grants	84,044	82,656
Gifts for capital:		
Endowment funds	336,059	277,626
Split interest agreements*	28,489	35,174
Loan funds and facilities	4,865	5,596
Total gifts for capital	369,413	318,396
<b>TOTAL GIFTS</b>	<b>\$ 690,056</b>	<b>\$ 615,046</b>

\* Shown at net present value. The undiscounted value of these gifts was \$65,771 and \$89,928 for the years ended June 30, 2008 and 2007, respectively.

## 16. OTHER OPERATING INCOME

The major components of other operating income for the years ended June 30, 2008 and 2007 were as follows (in thousands of dollars):

	2008	2007
Rental and parking	\$ 134,141	\$ 133,977
Publications	85,150	86,909
Royalties from patents, copyrights, and trademarks	84,514	64,490
Services income	48,345	48,188
Sales income	46,634	42,148
Non-student health and clinic fees	24,370	24,340
Other student income	25,113	22,170
Other	62,620	66,351
<b>TOTAL OTHER OPERATING INCOME</b>	<b>\$ 510,887</b>	<b>\$ 488,573</b>

## 17. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2008 and 2007 were as follows (in thousands of dollars):

	2008	2007
Services purchased	\$ 414,138	\$ 344,734
Subcontract expenses under sponsored projects	110,019	90,304
Travel	78,413	66,604
Publishing	52,961	62,374
Advertising	16,610	16,288
Taxes and fees	24,312	22,579
Interest	13,326	21,390
Postage	22,976	23,039
Insurance	10,482	13,554
Telephone	12,017	11,380
Other	45,656	8,622
<b>TOTAL OTHER EXPENSES</b>	<b>\$ 800,910</b>	<b>\$ 680,868</b>

## 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, 2008 and 2007 were as follows (in thousands of dollars):

	2008	2007
Instruction	\$ 946,944	\$ 883,010
Research	570,162	559,314
Libraries	212,334	197,939
Academic support	456,779	349,504
Scholarships and other student awards	110,532	108,588
Student services	125,025	111,976
Institutional support	625,176	562,255
Auxiliary services	417,941	398,064
<b>TOTAL EXPENSES</b>	<b>\$ 3,464,893</b>	<b>\$ 3,170,650</b>

## 19. COMMITMENTS AND CONTINGENCIES

### Sponsored support

The University receives funding from 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 programs are subject to audit and adjustment.

### Broad Institute

The University together with the Harvard-affiliated teaching hospitals, the Massachusetts Institute of Technology (MIT), and the Whitehead Institute for Biomedical Research jointly govern the Eli and Edythe L. Broad Institute (the "Broad Institute").

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 \$6.5 million as of June 30, 2008 and 2007, which is recorded in "Accounts payable" in the *Balance Sheets*.

The University and MIT will equally share certain laboratory construction fit-out costs for the Broad Institute's building. The University's portion of these costs is limited to \$8.0 million. There were no payments to MIT under this commitment during fiscal 2008; fiscal 2007 payments totaled \$1.2 million. 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 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 \$0.7 million and \$1.1 million in fiscal 2008 and 2007, respectively. 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.

On September 4, 2008, the Broad Institute announced a \$400.0 million pledge from philanthropists Eli and Edythe Broad to endow the Broad Institute and transform it into a permanent entity. In connection with this gift, the University, MIT, and the Broad Foundation have agreed to separately incorporate the Broad Institute and begin transferring employees, research agreements, and related assets and liabilities to the new entity. While separate incorporation of the new entity is expected to occur in fiscal 2009, the date of transfer of employees, research agreements, assets, and liabilities has not yet been established, nor have the University's continuing commitments to the new entity been determined.

### Lease commitments

The University is the lessee of equipment and space under operating (rental) and capital leases. Rent expense related to leases was \$39.9 million and \$37.4 million in fiscal 2008 and 2007, respectively. Future minimum payments under these operating and capital leases are as follows (in thousands of dollars):

	Operating	Capital
2009	\$ 28,483	\$ 362
2010	25,508	362
2011	22,744	1,129
2012	18,845	329
2013	13,057	329
Thereafter	244,529	11,450
<b>TOTAL FUTURE MINIMUM PAYMENTS</b>	<b>\$ 353,166</b>	<b>\$ 13,961</b>

### Fixed asset-related commitments

The University has various commitments for capital projects involving construction and renovation of certain facilities, real estate acquisitions, and equipment purchases, for which the outstanding commitments as of June 30, 2008 totaled approximately \$470.1 million.

### Environmental remediation

The University is subject to laws and regulations concerning environmental remediation and has established reserves for potential obligations that management considers to be probable and for which reasonable estimates can be made. These estimates may change substantially depending on new information regarding the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future expenditures for environmental remediation have not been discounted to their net present value. Management is not aware of any existing conditions that it believes are likely to have a material adverse effect on the University's financial position, changes in net assets, or cash flows.

### General

The University is a defendant in various legal actions arising from the normal course of its operations. While it is not possible to predict accurately or determine the eventual outcome of such actions, management 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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**PHOTOGRAPHY:**

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**CONCEPT AND DESIGN:**

Sametz Blackstone Associates, Boston

**APPENDIX C**

**DEFINITIONS AND SUMMARY OF THE LOAN AND TRUST AGREEMENT**

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## DEFINITIONS OF CERTAIN TERMS

*The following are definitions of certain terms used in the Loan and Trust Agreement and used in this Official Statement:*

### General Definitions

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

“Authorized Officer” means: (i) in the case of the Authority, the Chairman, Vice Chairman, Secretary, Executive Director, Director of Financing Programs, Director of Finance, Deputy Director of Financing Programs or Associate Director of Financing Programs, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Institution, the President, Vice President for Finance, the Treasurer or other chief financial officer or any Assistant Treasurer, and when used with reference to an act or document of the Institution, also means any other person authorized to perform the act or execute the document.

“Bond Counsel” means any nationally recognized bond counsel selected by the Institution and satisfactory to the Trustee and the Authority.

“Bond Year” means each one year period (or shorter period from the date of issue of a series of Bonds) ending on September 30.

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

“Bonds” means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series 2008E, dated the date of delivery, and any Bond or Bonds duly issued in exchange or replacement therefor.

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

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement between the Institution and the Trustee dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Government or Equivalent Obligations” means (i) obligations issued or guaranteed by the United States; and (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; and (iii) tax exempt obligations of any state or instrumentality, agency or political subdivision thereof which are fully secured by, or payments of principal and interest on which shall be made from, obligations described in clause (i) above.

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

“Moody’s” means Moody’s Investors Service, Inc., or any successor rating agency.

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

“Outstanding,” when used to modify Bonds, refers to Bonds issued under this Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment; (ii)

Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with this Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

“Project” means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the refinancing of the projects financed and refinanced with proceeds of the Refunded Bonds.

“Rebate Year” means the one year period (or shorter period beginning on the date of issue) ending on September 30.

“Refunded Bonds” means the Refunded Commercial Paper, the Series 2006B Bonds and the Series GG-1 Bonds.

“Refunded Commercial Paper” means a portion of the Authority’s Revenue Notes, Harvard University Issue, Series EE, issued on December 21, 2007.

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

“S&P” means Standard & Poor’s Ratings Group, Inc., or any successor rating agency.

“Series GG-1 Bonds” means the Authority’s Revenue Bonds, Harvard University Issue, Series GG-1, dated July 1, 2004.

“Series 2006B Bonds” means Massachusetts Development Finance Agency’s Revenue Bonds, Harvard University Issue, Series 2006B, dated July 20, 2006.

“UCC” means the Massachusetts Uniform Commercial Code.

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## SUMMARY OF THE LOAN AND TRUST AGREEMENT

*The following is a brief summary, prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement dated as of December 1, 2008 (the "Agreement") pertaining to the Bonds. This summary does not purport to be complete, and reference is made to the Agreement for full and complete statements of such and all provisions.*

The Agreement is entered into pursuant to a resolution adopted by the Authority on November 13, 2008 which authorizes the issuance of the Bonds.

### **The Assignment and Pledge of Revenues**

The Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (a) all Revenues to be received from the Institution or derived from any security provided under the Agreement and (b) all rights to receive such Revenues and the proceeds of such rights. This assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions of the Agreement. (Section 201)

### **Establishment of Funds**

The following funds shall be established and maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Agreement:

Debt Service Fund;  
Expense Fund; and  
Redemption Fund.

(Sections 303, 305 and 307)

### **Debt Service Fund**

A Debt Service Fund is established with the Trustee and moneys shall be deposited therein as provided in the Agreement. The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments) and interest on the Bonds. Promptly after November 15 of each Bond Year, if the amount deposited by the Institution in the Debt Service Fund during the preceding Bond Year pursuant to the Agreement was in excess of the amount required to be so deposited, the Trustee shall transfer such excess to the Institution unless there is then an Event of Default known to the Trustee with respect to payments to the Debt Service Fund, or to the Trustee or the Authority, in which case the excess shall be applied to such payments. (Section 303)

### **Expense Fund**

An Expense Fund is established to be held by the Authority and proceeds of the Bonds shall be deposited therein as provided in the Agreement. The moneys in the Expense Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Authority solely to the payment or reimbursement of the costs of issuing the Bonds. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Bonds, but shall be transferred to the Debt Service Fund as provided in the Agreement. After all costs of issuing the Bonds have been paid, any amounts remaining in the Expense Fund shall be transferred to the Debt Service Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Institution shall be liable for the deficiency and shall pay an amount equal to such deficiency as directed by the Authority. (Section 307)

## **Redemption Fund**

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

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

If any moneys in the Redemption Fund are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Bonds called for redemption in accordance with the Agreement, then the Institution shall immediately supply the deficiency. (Section 305)

## **Application of Moneys**

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

## **Rebate**

The Institution covenants to pay when due any rebate due to the United States. (Section 306)

## **Payments by the Institution**

The Institution shall pay to the Trustee for deposit in the Debt Service Fund the amounts specified in the Agreement at the times specified in the Agreement.

The payments to be made by the Institution under the Agreement shall be appropriately adjusted to reflect the date of issue of Bonds, any accrued interest deposited in the Debt Service Fund, any earnings on amounts in the Debt Service Fund and any purchase or redemption of Bonds, so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal due or coming due on the Bonds and so that accrued interest will be applied to the installments of interest to which they are applicable.

At any time when any principal of the Bonds is overdue, the Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the installment payments required under the Agreement shall not otherwise bear interest.

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

### **Unconditional Obligation**

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

### **Investments**

Pending their use under the Agreement, moneys in the Debt Service Fund and Redemption Fund may be invested by the Trustee in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee. Moneys in the Expense Fund may be invested by the Authority in Permitted Investments maturing or redeemable at the option of the holder not later than the time when such moneys are expected to be needed. Any investments pursuant to the Agreement shall be held by the Trustee or the Authority, as the case may be, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings on the Expense Fund shall be transferred to the Debt Service Fund not less often than quarterly and used to pay debt service on the Bonds.

The term "Permitted Investments" means: (A) Government or Equivalent Obligations or shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to Government or Equivalent Obligations and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority or United States government agency securities, (B) "tax exempt bonds" as defined in IRC §150(a)(6), other than "specified private activity bonds" as defined in IRC §57(a)(5)(C), rated at least AA or Aa by S&P and Moody's, respectively, or the equivalent by any other nationally recognized rating agency, at the time of acquisition thereof or shares of a so called money market or mutual fund that do not constitute "investment property" within the meaning of IRC §148(b)(2), provided either that the fund has all of its assets invested in obligations of such rating quality or, if such obligations are not so rated, that the fund has comparable creditworthiness through insurance or otherwise and which fund is rated AAm or AAm G if rated by S&P, (C) certificates of deposit of, banker's acceptances drawn on and accepted by, and interest bearing deposit accounts of, a bank or trust company which has a capital and surplus of not less than \$50,000,000, (D) Repurchase Agreements, (E) money market funds rated at least AAm or AAm-G by S&P, (F) investment agreements with providers rated at least AA- or Aa3 by S&P or Moody's and (G) money market funds rated at least "AAm" or "AAm-G" by S&P. The term "Repurchase Agreement" shall mean a written agreement under which a bank or trust company which has a capital and surplus of not less than \$50,000,000 or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York sells to, and agrees to repurchase from the Authority or the Trustee obligations issued or guaranteed by the United States; provided that the market value of such obligations is at the time of entering into the agreement at least one hundred and three percent (103%) of the

repurchase price specified in the agreement and that such obligations are segregated from the unencumbered assets of such bank or trust company or government bond dealer; and provided further that unless the agreement is with a bank or trust company, such agreement shall require the repurchase to occur on demand or on a date certain which is not later than one (1) year after such agreement is entered into and shall expressly authorize the Trustee or the Authority, as the case may be, to liquidate the purchased obligations in the event of the insolvency of the party required to repurchase such obligations or the commencement against such party of a case under the federal Bankruptcy Code or the appointment of or taking possession by a trustee or custodian in a case against such party under the Bankruptcy Code. Any such investments may be purchased from or through the Trustee.

Notwithstanding the immediately preceding paragraph, Permitted Investments shall not include the following:

(A) Government or Equivalent Obligations, certificates of deposit and bankers' acceptances, in each case with yields lower than either (i) the yield available on any comparable obligations then offered by the United States Treasury, or (ii) the highest yield published or posted by the provider of the Permitted Investments to be currently available from the provider on reasonably comparable investments; (B) any demand deposit or similar account with a bank, trust company or broker, unless (i) the account is used for holding funds for a short period of time until such funds are reinvested or spent, and (ii) substantially all the funds in the account are withdrawn for reinvestment or expenditure within fifteen (15) days of their deposit therein; or (C) Repurchase Agreements, unless (i) at least three (3) bids are obtained on the proposed Repurchase Agreement from persons other than those with an interest in the Bonds, (ii) the highest yielding Repurchase Agreement for which a qualifying bid is received is purchased, (iii) the provider of the Repurchase Agreement certifies that the yield on the Repurchase Agreement is not less than the yield then available from the provider on reasonably comparable Repurchase Agreements, if any, offered to persons who are purchasing the agreement from a source other than proceeds of tax-exempt bonds, (iv) the terms of the Repurchase Agreement, including collateral requirements, are reasonable, and (v) a written record of the yield offered by each bidder is maintained.

Any of the above requirements shall not apply to moneys as to which the Trustee and the Authority shall have received an Opinion of Bond Counsel regarding the waiver of such requirements. Permitted Investments shall not include any investment that would cause any of the Bonds to be federally guaranteed within the meaning of IRC §149(b). (Section 312)

### **Default by the Institution**

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

- (a) *Debt Service.* Any principal of (including sinking fund installments) or interest on the Bonds shall not be paid when due.
- (b) *Other Obligations.* The Institution shall fail to make any other required payment to the Trustee and such failure is not remedied within seven (7) days after written notice thereof is given by the Authority or the Trustee to the Institution; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.
- (c) *Warranties.* There shall be a material breach of a warranty made in the Agreement by the Institution as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.
- (d) *Voluntary Bankruptcy.* The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property.

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

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

(g) *Breach of Other Agreements.* A breach shall occur (and continue beyond any applicable grace period) with respect to the payment of other Indebtedness of the Institution for borrowed money with respect to loans exceeding \$10,000,000, or with respect to the performance of any agreement securing such other indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to under this heading, so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates any such Indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (g) if (A) the Institution is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, or (B) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Institution shall notify the Authority and the Trustee of any such breach or event immediately upon the Institution's becoming aware of its occurrence and shall from time to time furnish such information as the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this clause (g) has occurred and whether such acceleration continues to be in effect.

Waiver. If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, with the written consent of the Authority, by written notice to the Institution and shall do so, with the written consent of the Authority, upon written instruction of the registered owners of at least twenty five percent (25%) in principal amount of the Outstanding Bonds. (Section 501)

### **Remedies for Events of Default**

Remedies. If an Event of Default occurs and is continuing:

(a) *Acceleration.* The Trustee may by written notice to the Institution and the Authority declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

(b) *Rights as a Secured Party.* The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Debt Service Fund and the Redemption Fund, including the right to sell or redeem such securities and the right to retain such securities in satisfaction of the obligations of the Institution under the Agreement. (Section 502)

### **Court Proceedings.**

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

Subject to certain provisions specified in the Agreement, the Trustee may enforce the obligations of the Authority under the Agreement by legal proceedings for the specific performance of any covenant, obligation or

agreement contained in the Agreement, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Authority of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations of the Authority under the Agreement. (Section 503)

#### **Revenues after Default.**

The proceeds from sale, redemption or retention of securities under the provisions described under "Rights as a Secured Party" and "Court Proceedings" above shall be remitted to the Trustee upon receipt and in the form received. After payment or reimbursement of the reasonable expenses of the Trustee and the Authority in connection therewith the same shall be applied, first to the remaining obligations of the Institution under the Agreement (other than obligations to make payments to the Authority for its own use) in such order as may be determined by the Trustee, and second, to any unpaid sums due the Authority for its own use. Any surplus thereof shall be paid to the Institution. (Section 504)

#### **Remedies Cumulative**

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Institution or of the Authority or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance or of the right to exercise any remedy for the violation. (Section 506)

#### **Resignation or Removal of the Trustee**

The Trustee may resign on not less than thirty (30) days' notice given in writing to the Authority, the Bondowners and the Institution, but such resignation shall not take effect until a successor has been appointed. The Trustee may be removed by written notice from the Institution (so long as no Event of Default is then existing) or from the owners of a majority in principal amount of the Outstanding Bonds to the Trustee, the Authority and the Institution. (Section 604)

#### **Action by Bondowners**

Any request, authorization, direction, notice, consent, waiver or other action provided by the Agreement to be given or taken by Bondowners may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondowners or their attorneys duly appointed in writing. Any request, consent or vote of the owner of any Bond shall bind all future owners of such Bond. Bonds owned or held by or for the account of the Authority or the Institution shall not be deemed Outstanding Bonds for the purpose of any consent or other action by Bondowners. (Section 801)

#### **Proceedings by Bondowners**

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

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

Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights under the Agreement and under the laws of The Commonwealth of Massachusetts. (Section 802)

## **Annual Reports and Other Current Information**

The Institution shall from time to time render such reports concerning the condition of the Project or compliance with the Agreement as the Authority or the Trustee may reasonably request. Within one hundred eighty (180) days after the close of each of its fiscal years, the Institution shall furnish to the Trustee and the Authority, and to Bondowners requesting the same, copies of its audited financial statements. The Institution shall furnish to the Authority and to the Trustee, within sixty (60) days after the close of each fiscal year, a certificate signed by its chief operating officer or an Authorized Officer stating that the Institution has caused its operations for the year to be reviewed and that in the course of that review, no default under the Agreement has come to its attention or, if such a default has appeared, a description of the default. (Section 904)

## **Maintenance of Corporate Existence**

The Institution shall maintain its existence under the laws of The Commonwealth of Massachusetts and shall not dissolve or dispose of all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the Agreement, (b) the transaction does not result in a conflict, breach or default referred to in the Agreement, (c) the surviving, resulting or transferee entity or entities each (i) assumes by written agreement with the Authority and the Trustee all the obligations of the Institution under the Agreement, (ii) notifies the Authority and the Trustee of any change in the name of the Institution, and (iii) executes, delivers, registers, records and files such other instruments as the Authority or the Trustee may reasonably require to confirm, perfect or maintain the security granted under the Agreement. (Section 905)

## **Continuing Disclosure**

The Institution and the Trustee have covenanted and agreed that each will comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it and the Agreement. The Authority shall have no liability to the owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Agreement, failure of the Institution or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the registered owners of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any owner (including a beneficial owner) of Bonds may seek specific performance of the Institution's or the Trustee's obligations to comply with the Continuing Disclosure Agreement or the Agreement and not for money damages in any amount. (Section 906)

## **Amendment**

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

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

Any amendment of the Agreement shall be accompanied by an Opinion of Bond Counsel to the effect that the amendment is permitted by the Agreement and will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. (Section 1001)

### **Defeasance**

When there are in the Debt Service Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Bonds in full, and when all the rights under the Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Agreement, the security interests created by the Agreement (except in such funds and investments) shall terminate, the Bonds shall be deemed paid, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose, and moneys held for defeasance shall be invested only as described above in this paragraph. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee and after allowance for payment of rebate to the United States, be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require. (Section 202)

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**PROPOSED FORM OF BOND COUNSEL OPINION**

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## EDWARDS ANGELL PALMER &amp; DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

**Proposed Form of Bond Counsel Opinion**

[Date of Delivery]

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

\$1,000,000,000  
Massachusetts Health and Educational Facilities Authority  
Revenue Bonds, Harvard University Issue, Series 2009A  
(the “Bonds”)

dated the Date of Delivery

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the “Authority”) in connection with the issuance by the Authority of the above-referenced bonds (together, the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Loan and Trust Agreement dated as of December 1, 2008 (the “Agreement”) among the Authority, President and Fellows of Harvard College (the “Institution”) and U. S. Bank National Association, as Trustee (the “Trustee”).

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

The Bonds are issued pursuant to the Agreement. The Bonds are payable solely from funds to be provided therefor by the Institution pursuant to the Agreement. Under the Agreement, the Institution has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and purchase or redemption price of and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the “Revenues”), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

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

D-1

Massachusetts Health and Educational

Facilities Authority

[Date of Delivery]

Page 2

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

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

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

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

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

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

Massachusetts Health and Educational

Facilities Authority

[Date of Delivery]

Page 3

such requirements. Failure by the Authority or the Institution to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

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

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

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

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**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by President and Fellows of Harvard College (the “Institution”) and U.S. Bank National Association, as Trustee (the “Trustee”) in connection with the issuance of \$1,000,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series 2009A (the “Bonds”). The Bonds are being issued pursuant to a Loan and Trust Agreement dated as of December 1, 2008 (the “Agreement”) among the Massachusetts Health and Educational Facilities Authority (the “Authority”), the Trustee and the Institution and the proceeds of the Bonds are being loaned by the Authority to the Institution pursuant to the Agreement. The Institution and the Trustee covenant and agree as follows:

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

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

“Annual Report” shall mean any Annual Report provided by the Institution pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Bondowner” or “Owner of the Bond” shall mean the registered owner of a Bond and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or Institution.

“Dissemination Agent” shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Institution and which has filed with the Institution, the Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be the Trustee. In the absence of a third-party Dissemination Agent, the Institution shall serve as the Dissemination Agent.

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

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

“Participating Underwriter” shall mean J.P. Morgan Securities Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

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

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

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

SECTION 3. Provision of Annual Reports.

(a) Not later than March 1 of each year, commencing March 1, 2009 (the “Filing Deadline”) the Dissemination Agent shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the Institution (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Institution may be submitted separately from, and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of the Institution at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. The Institution shall submit the audited financial statements to the Dissemination Agent and the Trustee as soon as practicable after they become available and the Dissemination Agent shall submit the audited financial statements to each Repository as soon as practicable thereafter. The Institution shall provide a copy of the Annual Report to the Authority and the Trustee.

(b) The Dissemination Agent shall:

(i) determine each year within five (5) Business Days of the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (insofar as determinations regarding National Repositories are concerned, the Dissemination Agent or the Institution, as applicable, may rely conclusively on the list of National Repositories maintained by the United States Securities and Exchange Commission); and

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

(c) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send, and the Institution hereby authorizes and directs the Trustee to submit on its behalf, a notice to each Repository in substantially the form attached as Exhibit A.

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

SECTION 4. Content of Annual Reports. The Institution’s Annual Report shall contain or incorporate by reference the following:

(a) Quantitative information for the preceding fiscal year of the type presented under the heading captioned “Student Applications and Enrollment” in Appendix A to the Authority’s Official Statement dated December 10, 2008.

(b) Quantitative information for the preceding fiscal year of the type presented in the tables captioned “Summary of Financial Results,” and general information with respect to endowment assets, and income and expenses as found in Appendix B to the Authority’s Official Statement dated December 10, 2008.

The financial statements provided pursuant to Sections 3 and 4 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Institution is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Institution shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

Items 3, 4, 5 and 10 are inapplicable to the Bonds.

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

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

SECTION 7. Termination of Reporting Obligation. The Institution’s obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Institution and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If the Institution’s obligations under the Agreement are assumed in full by some other entity, such person

shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Institution and the original Institution shall have no further responsibility hereunder.

SECTION 8. Dissemination Agent. The Institution may, from time to time with notice to the Trustee and the Authority appoint or engage a third-party Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may, with notice to the Trustee and the Authority, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the Institution) may resign upon 30 days' written notice to the Institution, the Trustee and the Authority.

SECTION 9. Amendment, Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Institution and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Institution) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Institution and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, the Institution and the Trustee may amend this Disclosure Agreement if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Institution or of the type of business conducted by the Institution, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) (i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement pursuant to Section 1001 of the Agreement. The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. Neither the Trustee nor the Dissemination Agent shall be required to accept or acknowledge any amendment of this Disclosure Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Institution from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Institution chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Institution shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Institution or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of Bondowners representing at least 25% in aggregate principal amount of Outstanding Bonds, shall), take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Institution or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, Article VI of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. The Dissemination Agent (if other than the Institution) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Institution agrees to indemnify and save the Dissemination Agent (if other than the Institution), its officers, director, employees

and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Institution under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Institution covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement.

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

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Institution, the Trustee, the Dissemination Agent, the Participating Underwriter and the Bondowners, and shall create no rights in any other person or entity.

SECTION 14. Disclaimer. No Annual Report or notice of a Listed Event filed by or on behalf of the Institution under this Disclosure Agreement shall obligate the Institution to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor shall any such filing constitute a representation by the Institution or raise any inference that no other material events have occurred with respect to the Institution or the Bonds or that all material information regarding the Institution or the Bonds has been disclosed. The Institution shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Date: January \_\_, 2009

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

By \_\_\_\_\_  
Title:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By \_\_\_\_\_  
Title:

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Massachusetts Health and Educational Facilities Authority  
Name of Bond Issue: Revenue Bonds, Harvard University Issue, Series 2009A  
Name of Obligated Person: President and Fellows of Harvard College  
Date of Issuance: January \_\_, 2009

NOTICE IS HEREBY GIVEN that President and Fellows of Harvard College (the "Institution") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated January \_\_, 2009 between the Institution and U.S. Bank National Association, as Trustee.

Dated: \_\_\_\_\_, 20\_\_

U.S. BANK NATIONAL ASSOCIATION, on behalf  
of PRESIDENT AND FELLOWS OF HARVARD  
COLLEGE

cc: President and Fellows of Harvard College

EXHIBIT B

NATIONAL REPOSITORIES AND TRANSMISSION AGENTS

**Bloomberg Municipal Repository**

100 Business Park Drive  
Skillman, New Jersey 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
<http://www.bloomberg.com/markets/rates/municontacts.html>  
Email: [Munis@Bloomberg.com](mailto:Munis@Bloomberg.com)

**DPC Data Inc.**

One Executive Drive  
Fort Lee, New Jersey 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
<http://www.MuniFILINGS.com>  
Email: [nrmsir@dpdata.com](mailto:nrmsir@dpdata.com)

**Interactive Data Pricing and Reference Data, Inc.**

Attn: NRMSIR  
100 William Street, 15<sup>th</sup> Floor  
New York, New York 10038  
Phone: (212) 771-6999; (800) 689-8466  
Fax: (212) 771-7390  
<http://www.interactivedata-prd.com>  
Email: [NRMSIR@interactivedata.com](mailto:NRMSIR@interactivedata.com)

**Standard & Poor's Securities Evaluations, Inc.**

55 Water Street, 45<sup>th</sup> Floor  
New York, New York 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
<http://www.disclosuredirectory.standardandpoors.com>  
Email: [nrmsir\\_repository@sandp.com](mailto:nrmsir_repository@sandp.com)

TRANSMISSION AGENTS

[www.DisclosureUSA.org](http://www.DisclosureUSA.org)

**Disclosure USA**

P.O. Box 684667  
Austin, Texas 78768-4667

**Digital Assurance Certification, L.L.C.**

390 North Orange Avenue, Suite 1750  
Orlando, Florida 32801  
Phone: (407) 515-1100  
Fax: (407) 515-6513  
[www.dacbond.com](http://www.dacbond.com)

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