

*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. Bond Counsel expresses no opinion whether 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.*



**\$480,000,000**

**MASSACHUSETTS HEALTH AND EDUCATIONAL  
FACILITIES AUTHORITY REVENUE BONDS,  
HARVARD UNIVERSITY ISSUE, SERIES 2010A**



**Dated: Date of Delivery**

**Due: December 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. The Bank of New York Mellon Trust Company, N.A. 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 June 15, 2010, and semiannually thereafter on each December 15 and June 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 January 1, 2010 (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 will be available in definitive form for delivery to DTC in New York, New York or its custodial agent on or about January 20, 2010.

**Barclays Capital**

**BofA Merrill Lynch**

**Citi**

**Morgan Stanley**

**Loop Capital Markets, LLC**

**\$480,000,000**

**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY REVENUE  
BONDS, HARVARD UNIVERSITY ISSUE, SERIES 2010A**

<u>Due December 15,</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Number**</u>
2013	\$ 5,035,000	3.00%	1.07%	57586EPY1
2013	5,000,000	4.00	1.07	57586EQM6
2014	3,745,000	3.00	1.50	57586EPZ8
2014	5,000,000	4.00	1.50	57586EQN4
2015	3,790,000	3.00	1.95	57586EQA2
2015	5,000,000	5.00	1.95	57586EQP9
2021	44,590,000	5.00	3.13	57586EQQ7
2021	5,000,000	4.00	3.13	57586EQB0
2024	25,280,000	5.00	3.39	57586EQR5
2024	3,330,000	4.00	3.39	57586EQC8
2025	30,665,000	5.00	3.46	57586EQD6
2026	32,845,000	5.00	3.53	57586EQF1
2027	34,250,000	5.00	3.60	57586EQT1
2027	1,225,000	4.00	3.60	57586EQG9
2028	44,150,000	5.00	3.67	57586EQH7
2029	33,850,000	5.00	3.74	57586EQJ3
2030	38,485,000	5.00	3.80	57586EQU8
2030	1,300,000	4.00	3.80	57586EQL8
2031	43,145,000	5.00	3.85	57586EQK0
2034	108,670,000	5.00	4.02	57586EQS3
2034	5,645,000	4.00	4.02	57586EQE4

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\*\* 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 .....	7	
PLAN OF FINANCING.....	11	
ESTIMATED SOURCES AND USES OF FUNDS .....	12	
RATINGS .....	12	
UNDERWRITING .....	13	
CONTINUING DISCLOSURE.....	13	
TAX EXEMPTION .....	14	
LEGALITY OF BONDS FOR INVESTMENT AND DEPOSIT.....	15	
COMMONWEALTH OF MASSACHUSETTS NOT LIABLE ON BONDS .....	15	
LEGAL MATTERS.....	16	
INDEPENDENT ACCOUNTANTS .....	16	
VERIFICATION REPORT .....	16	
MISCELLANEOUS .....	16	
APPENDIX A	CERTAIN INFORMATION CONCERNING THE INSTITUTION .....	A-1
APPENDIX B	HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2009 ....	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

CHRISTINE C. SCHUSTER, *Chair*  
MARK P. BILOTTA, *Vice Chair*  
TIMOTHY O'CONNOR, *Secretary*  
DARRELL C. BYERS

JACQUELINE J. CONRAD  
GILL E. ENOS  
MARVIN A. GORDON  
ALLEN R. LARSON

MICHAEL P. MONAHAN

BENSON T. CASWELL, Executive Director

**OFFICIAL STATEMENT**

**Relating to**

**\$480,000,000**

**MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY  
REVENUE BONDS, HARVARD UNIVERSITY ISSUE,  
SERIES 2010A**

**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 2010A (the "Bonds"), authorized by the Loan and Trust Agreement dated as of January 1, 2010 (the "Agreement") by and among the Massachusetts Health and Educational Facilities Authority (the "Authority"), the President and Fellows of Harvard College (the "Institution") and The Bank of New York Mellon Trust Company, N.A., 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

The proceeds of the Bonds will be applied to (1) advance refund a portion of the tax-exempt Series FF Bonds issued by the Authority on behalf of the Institution, (2) pay at maturity a portion of taxable commercial paper notes issued by the Institution, (3) pay at maturity a portion of tax-exempt commercial paper notes issued by the Authority on behalf of the Institution, (4) finance costs associated with the construction of a new Harvard Law School building and other capital projects of the Institution and (5) 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 Chair and one to serve as Vice Chair.

The members of the Authority are as follows:

**CHRISTINE C. SCHUSTER**; RN; Chair: 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, Massachusetts. Ms. Schuster has over twenty years of experience in the healthcare industry. Prior to joining Emerson Hospital, Ms. Schuster held the position of President and Chief Executive Officer of Quincy Medical Center and previously Athol Memorial Hospital. She also served as the Chief Operating Officer of the Extended Care Division of Tenet Saint Vincent Healthcare System, Director of Critical Care Services at the New England Deaconess Hospital; and five years as a healthcare management consultant with Coopers & Lybrand. Ms. Schuster serves on the Board of Directors of the VHA Northeast, the Massachusetts Council of Community Hospitals, Trustee and Secretary of PowerOptions, Inc., and the Concord Chamber of Commerce and Secretary to the Concord Economic Council. Ms. Schuster was elected to the American Hospital Association (AHA) Council of Metropolitan Hospitals and also served on the American Hospital Regional Policy Board. She has served on the Board of the Massachusetts Hospital Association (MHA) where she was Chair of the Clinical Issues Advisory Council (CIAC) and was a member of the Finance Committee, and is currently a member of the CIAC and the Leadership Education Committee. Ms. Schuster is also an Honorary Commander of Hanscom Air Force Base in Bedford, Massachusetts. 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**; Vice Chair: 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 twelve 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.

**TIMOTHY O'CONNOR**; Secretary: term as Member expired July 1, 2009. Mr. O'Connor will continue to serve until he is reappointed or his successor takes office.

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.

**DARRELL C. BYERS**; term as Member expires July 1, 2016.

Mr. Byers, a resident of West Roxbury, is Vice Chancellor of University Advancement at the University of Massachusetts Boston, Boston, Massachusetts since 2005. Previously he served as Director of Business Development at WGBH; Senior Major Gifts Office and Planned Giving Director at the Harvard Graduate School of Education; Director of Corporate and Foundation Relations at Georgetown University Medical Center which included Georgetown University Hospital, Georgetown School of Medicine, Georgetown School of Nursing and Health Sciences and Lombardi Comprehensive Cancer Center; and also served as Vice President of Development at Caritas Norwood Hospital. Mr. Byers serves on the Board of Overseers at Children's Hospital Boston, the WGBH Corporate Executive Council, the Association of Fundraising Professionals of Massachusetts, where he co-founded the Advancement Institute at UMass Boston, and the City Mission Society of Boston. In 2009 Mr. Byers was the recipient of the CASE District 1 New England and Eastern Canada Eleanor Collier Award which is presented to a current member of CASE District 1 whose contribution to their organization and or to the professions encompassed by the membership reflect honor on CASE, education and those fields of professional expertise. Mr. Byers holds a B.A. from College of the Holy Cross, Worcester.

**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.

**GILL E. ENOS**; term as Member expires July 1, 2012.

Mr. Enos, a resident of Taunton, is the Budget Director of the City of Taunton, Massachusetts. Prior to his position as Budget Director, Mr. Enos served as Assistant to the Mayor of the City of Taunton from 2004 to 2007 and from 1992 to 2000. He also held positions with State Street Bank and Trust Co. as Portfolio Accountant from 1986 to 1988, Auditor from 1988 to 1990, and Fund Group Manager from 1990 to 1992. Mr. Enos currently serves as a Member of the Taunton Zoning Board of Appeals and has served as a Member, Director and Past Vice Chairman of the Southeastern Regional Services Group, and Member and Past Vice Chairman of the Taunton Emergency Task Force. His community involvement includes coach of the Taunton Park & Recreation Basketball, Taunton West Little League, and Taunton Area Babe Ruth. Mr. Enos holds a B.S in Management Science from Bridgewater State College.

**MARVIN A. GORDON**; 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.

**ALLEN R. LARSON**; 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, which advises 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 director of the Cape Cod Center for Sustainability Inc., the Highlands Center, Inc., and Ecology Project International. Mr. Larson graduated from Dartmouth College, earned a J.D. from Albany Law School and received an M.B.A. from the University of Minnesota.

**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.

### Staff and Advisors

**Benson T. Caswell**, a resident of North Andover, was appointed Executive Director of the Authority on April 9, 2002, and is responsible for the management of the Authority's affairs. From 1992 through 2002, Mr. Caswell worked for Ponder & Co. in Chicago where he was a Senior Vice President. From 1987 through 1992, he was Vice President of Ziegler Securities, Chicago, Illinois. From 1983 through 1986, he was an attorney with Gardner, Carton & Douglas. Mr. Caswell holds a Juris Doctor from the University of Chicago, an M.B.A. from Lehigh University and a B.S. 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 June 15, 2010 and each December 15 and June 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 redemption provisions described below.

Optional Redemption. The Bonds maturing after December 15, 2021 are subject to optional redemption prior to maturity, beginning on December 15, 2019 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 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**

The proceeds of the Bonds will be applied to (1) advance refund the portion of the tax-exempt Series FF Bonds issued by the Authority on behalf of the Institution that mature on July 15, 2022 (the "Refunded Series FF Bonds"), (2) pay at maturity a portion of taxable commercial paper notes issued by the Institution, (3) pay at maturity a portion of tax-exempt commercial paper notes issued by the Authority on behalf of the Institution, (4) finance costs associated with the construction of a new Harvard Law School building and other capital projects of the Institution and (5) pay costs of issuance of the Bonds. A portion of the tax-exempt commercial paper notes being refunded and a portion of the taxable commercial paper notes being refunded were issued to finance capital projects of the Institution and a

portion of the taxable commercial paper notes being refunded was issued to redeem a portion of the tax-exempt Series Z Bonds issued by the Authority on behalf of the Institution.

The portion of the proceeds of the Bonds applied to advance refund the Refunded Series FF Bonds will be deposited in a refunding trust account held by the trustee of the Refunded Series FF Bonds. The amount so deposited will be invested in United States Treasury obligations, the principal of and interest on which will be applied to (1) redeem the Refunded Series FF Bonds on July 15, 2012 at a redemption price of par and (2) pay interest on such Refunded Series FF Bonds to such redemption date. Upon the making of the foregoing deposit on the date of delivery of the Bonds, the Refunded Series FF Bonds will be deemed to be no longer outstanding for the purposes of the loan and trust agreement pursuant to which such Refunded Series FF Bonds were issued.

### **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 .....	\$480,000,000
Net Original Issue Premium.....	51,814,469
Equity Contribution .....	137,095
Total Sources .....	\$531,951,564
Uses of Funds:	
Refunding of Refunded Series FF Bonds .....	\$ 57,943,797
Repayment of Refunded Tax- Exempt Commercial Paper Notes .....	188,533,000
Repayment of Refunded Taxable Commercial Paper Notes .....	63,945,000
Project Costs .....	218,589,233
Costs of Issuance <sup>(1)</sup> .....	2,940,534
Total Uses .....	\$531,951,564

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

### **RATINGS**

Moody's has assigned a long-term rating of "Aaa" with a stable outlook to the Bonds. S&P has assigned a long-term rating of "AAA" with a stable outlook 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 Barclays Capital Inc. (the “Underwriters”), have agreed to purchase the Bonds at an aggregate purchase price of \$529,498,800.02 (representing the principal amount of the Bonds, plus a net original issue premium of \$51,814,469.10 and less an underwriting discount of \$2,315,669.08), pursuant to a purchase contract. Pursuant to such purchase contract, the Institution also has agreed to pay the Underwriters an additional fee of \$106,648.82. 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 certain portions of this Official Statement described in the fifth paragraph under the heading “MISCELLANEOUS”. The public offering prices set forth on the inside cover page hereof may be changed after the initial offering by the Underwriters.

Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., each an underwriter of the Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with their respective allocations of Bonds.

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 are to be filed by the Institution, or by the Trustee on behalf of the Institution, in electronic form with the Electronic Municipal Market Access system (“EMMA”) maintained by the Municipal Securities Rulemaking Board (the “MSRB”). 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 expresses no opinion whether 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, 2009, with summarized comparative financial information as of and for the year ended June 30, 2008, 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.

### **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the Institution and the Authority, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the obligations purchased, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Series FF Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the Institution, the Underwriters and their representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Institution and its representatives and has not evaluated or examined the assumptions or information used in the computations.

### **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 2009," which includes the audited financial statements of the Institution for the fiscal year ended June 30, 2009. 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

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**APPENDIX A**

**CERTAIN INFORMATION CONCERNING THE INSTITUTION**

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# HARVARD UNIVERSITY

MASSACHUSETTS HALL  
CAMBRIDGE, MASSACHUSETTS 02138

January 14, 2010

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

---

\* Announced intention to retire at the end of the fiscal year.

**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**  
Former U.S. Secretary of the Treasury

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.

### **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:

Drew Gilpin Faust	President
Steven Hyman	Provost
James F. Rothenberg	Treasurer
Katherine N. Lapp	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
Thomas E. Vautin	Acting Vice President for Administration
Clayton Spencer	Vice President for Policy
Marilyn Hausammann	Vice President for Human Resources

## **Harvard Management Company**

Harvard Management Company, Inc. (“HMC”), a wholly owned subsidiary of the University founded in 1974, has delegated authority to manage the General Investment Account and the assets of the University pursuant to an Investment Advisory Agreement. HMC is governed by a 13 member Board of Directors, which includes the President and the Treasurer of the University and the President of HMC.

Jane Mendillo became the President and CEO of HMC effective July 1, 2008. Prior to joining HMC, Ms. Mendillo served for six years as the Chief Investment Officer of Wellesley College. Prior to her tenure at Wellesley, she served as one of HMC’s senior investment officers in a career spanning 15 years from 1987 until early 2002.

The current management team at HMC includes Head of Internal Management, Stephen Blyth (with HMC since 2005); Chief Operating Officer, Robert Ettl (who joined HMC in 2008); Chief Financial Officer, Kevin Shannon (who joined HMC in 2009); Chief Information Officer, Michael Maffatone (who joined HMC in 2009); Chief Compliance Officer, Kathryn Murtagh (with HMC since May 2006); Chief Trusts & Gifts Officer, Jennifer Pline (with HMC since 2005); Chief Administrative Officer, Michael Tufts (with HMC since 1997); and Head of External Management, Andy Wiltshire (with HMC since 2001).

Personnel changes at HMC may result in changes in investment or management approach. Harvard and HMC remain committed to maintaining an experienced, disciplined and talented investment management function capable of providing superior performance for Harvard’s endowment and related assets. HMC anticipates that it will continue its past practice of managing a significant portion of Harvard’s assets internally while selecting external managers for the remaining portion of the endowment.

## **Allston Development**

As announced on December 10, 2009, the University will pause construction of the Allston Science Complex upon completion of the current phase in the early spring of 2010. The Allston Science Complex is the first project planned in an envisioned fifty-year extension of Harvard’s campus in Allston, a neighborhood of the City of Boston across the Charles River from the Cambridge campus and adjacent to the Harvard Business School. The below-grade structure of the Allston Science Complex has been constructed to ground level. Near-term initiatives in Allston will focus on property improvements, leasing of vacant or partially vacant Harvard properties, and community engagement.

## **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	Freshmen Applied	Freshmen Admitted	Freshmen Enrolled	Selectivity (%)	Yield (%)
2005-06	22,721	2,027	1,640	8.9	80.9
2006-07	22,650	2,021	1,684	8.9	83.3
2007-08	22,872	2,025	1,659	8.9	81.9
2008-09	27,382	2,095	1,658	7.7	79.1
2009-10	29,114	2,175	1,665	7.5	76.6

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
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
2009-10	6,653	12,296	18,949

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 academic years 2006 through 2010.

Academic Year	Tuition and Fees	Average Room & Board	Total
2005-06	\$32,097	\$9,578	\$41,675
2006-07	33,709	9,946	43,655
2007-08	34,998	10,622	45,620
2008-09	36,173	11,042	47,215
2009-10	37,012	11,856	48,868

### **Student Financial Aid**

The University's undergraduate admissions policy includes the tenet that admission is need-blind. As of June 30, 2009, approximately 70% of undergraduate students received some form of financial aid, with close to 57% qualifying for need-based

scholarship assistance. The average undergraduate aid package consists of grants, loans, and employment, and represents 77% 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, 2009, included \$2.0 million of loans issued by Harvard under federally guaranteed programs, \$79.0 million of loans made under federally funded revolving loan programs, and \$76.1 million of loans funded by donors or by unrestricted funds of the faculties. At the close of fiscal years 2004 through 2009, student loans (in millions of dollars, net of reserve for bad debt) from all University sources amounted to:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Student Loans Outstanding	\$128.6	\$128.6	\$126.5	\$134.0	\$150.4	\$157.1

In 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 initiative has focused 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 13,500 employees as of September 30, 2009 (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 5,600 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.

### **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**

In October 2008, the IRS announced that it was sending "compliance check questionnaires" to approximately 400 colleges and universities as part of a "colleges and universities compliance project." The University received and responded to one of these questionnaires. The IRS subsequently announced that it would conduct "team examination program" audits of a number of colleges and universities and that it expects to initiate approximately 40 of these audits by the end of 2010. The University, in common with a number of other institutions, received notice from the IRS that it will be subject to such an examination and that audit is just now beginning. Team examinations typically extend over more than a year and involve a team of agents reviewing a broad array of activities. The University has no reason to believe that the examination will have an adverse effect on the tax-exempt status of the University or any other aspect of the University's operations.

As of December 31, 2009, the outstanding balance of the University's tax-exempt commercial paper program was \$568,229,535 out of an authorized limit of \$1,000,000,000. As of December 31, 2009, the outstanding balance of the University's previously issued taxable commercial paper program was \$362,237,000 out of an authorized limit of \$2,000,000,000.

After giving effect to the repayment of a portion of the tax-exempt commercial paper program from the proceeds of the Bonds being issued under this Official Statement, the University estimates that the aggregate outstanding debt will be approximately \$6.3 billion.

\* \* \*

This Appendix A and the accompanying “Financial Report Fiscal Year 2009” 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 2010A.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

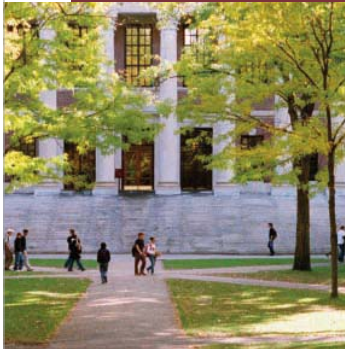
By: /s/ Daniel Shore  
Vice President for Finance and Chief Financial Officer

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**APPENDIX B**

**HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2009**

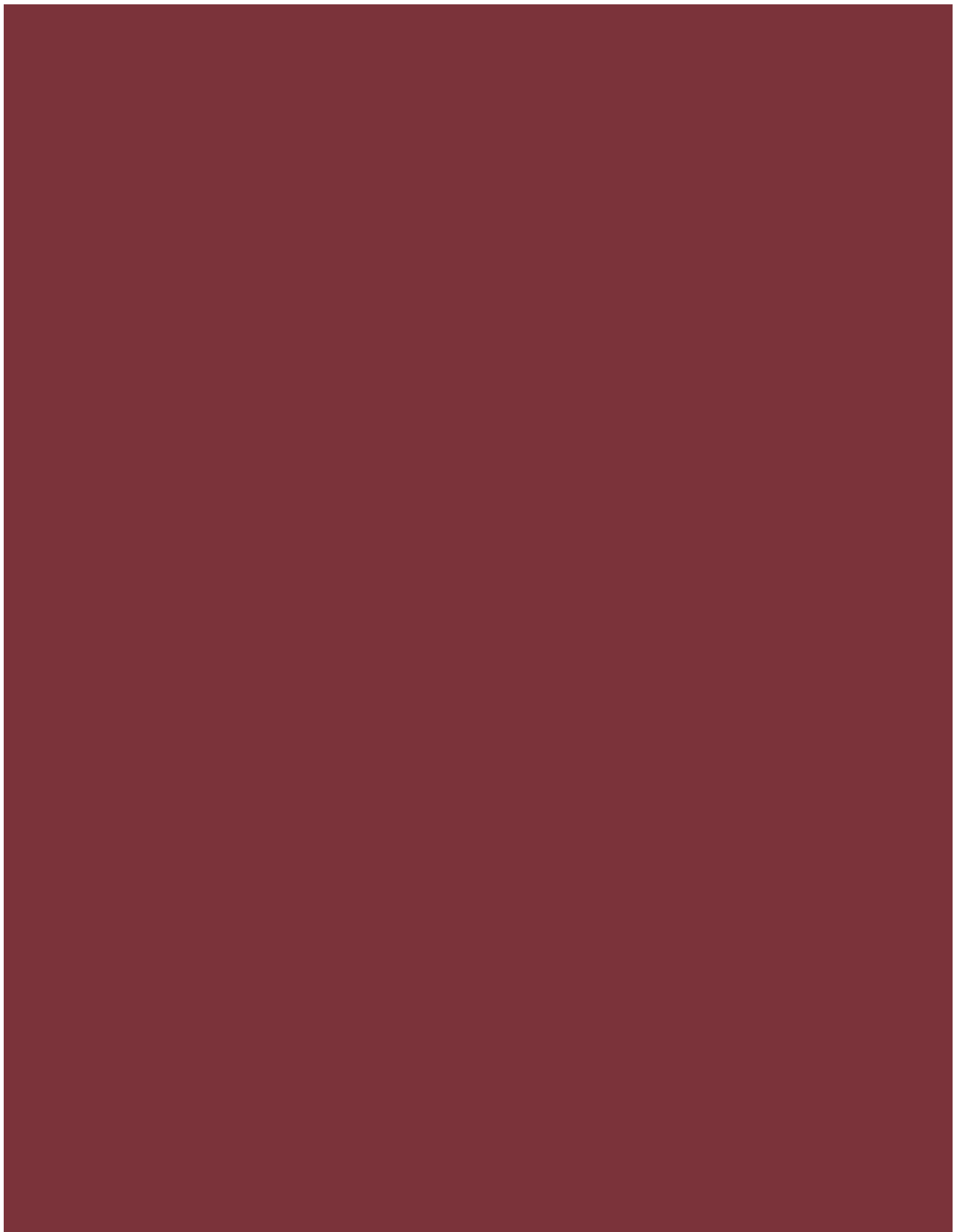
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# HARVARD UNIVERSITY FINANCIAL REPORT

FISCAL YEAR 2009





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

# Message from the President

I write to report Harvard University's financial results for fiscal 2009. The crisis in the markets and the accompanying economic downturn made this an exceptionally challenging year, in financial terms, for all universities. Our investment returns were negative 27.3 percent for the fiscal year ending June 30. Subtracting disbursements for operations, net of new gifts, the endowment as of June 30 totaled \$26.0 billion—down from \$36.9 billion a year earlier.

We have taken important steps, as a result, to realign the University's cost base and capital structure. We have significantly reduced operating budgets in the Schools and in the central administration. These budget reductions entailed significant actions to control our personnel costs, which make up roughly half of the University's spending. We have aggressively slowed both new hiring and the filling of vacant positions; we offered voluntary retirement incentives for long-serving staff; we undertook a painful but important round of reductions in force, affecting more than 275 of our colleagues, many of whom had served Harvard ably for years; and we held salaries flat for both faculty and exempt staff. At the same time, we have slowed our ambitious capital plans—most obviously, with regard to our long-term aspirations in Allston. Overall, we expect to reduce by roughly half the capital spending we had originally anticipated for the next several years.

Notwithstanding the financial challenges of the past year, we continue to celebrate significant accomplishments across the University. We have carried forward faculty searches in key fields, resulting in the addition this academic year of 70 ladder faculty, and we have sustained our strong commitment to student financial aid. We have launched a new program in General Education, and created a new doctoral degree in education leadership. We inaugurated an institute for biologically inspired engineering, and strengthened our commitment to the arts, to public service, and to sustainability. We have more students than ever working and studying abroad. We named three outstanding new deans during the past year—in the School of Public Health, the School of Engineering and Applied Sciences, and the Law School—and we just enrolled the most diverse freshman class in Harvard history.

The world faces many very complex challenges that demand attention—economic uncertainty and financial systems in flux; climate change and threats to sustainability; infectious diseases and inadequate access to health care; persistent inequality as well as religious and cultural strife. What we do here can make a great difference in how these and other problems are understood and addressed—through research that generates fresh ideas, through the discovery of promising solutions, through the education of students we send into the world. In short, at a time when higher education faces new financial constraints, our work here has never mattered more.

I would like to express my gratitude to our students, faculty, staff and our generous alumni for their commitment and support in this unprecedented year. We have a great deal to be proud of, and I look forward to the opportunities that lie ahead.

Sincerely,



Drew Gilpin Faust  
PRESIDENT

October 4, 2009

# Financial Overview

From the Vice President for Finance and the Treasurer

The global economic crisis has fundamentally changed the financial condition not only of Harvard and other universities, but of most participants in the global economy. Harvard navigated challenging terrain in fiscal 2009—yet we have emerged with confidence for the future notwithstanding a significant decline in our resources. The discussion that follows identifies the key factors affecting the University’s operating result for the year ended June 30, 2009 and its financial position as of that date.

## OPERATING RESULT

Last fall, as the severity and likely longevity of the global economic downturn came into sharper focus, the University resolved to act quickly. As a result, Harvard achieved substantial savings that reduced the planned rate of growth in expenses, and will help the University adapt to a new economic reality for the longer term. This contributed to a net positive operating result of \$71 million in fiscal 2009, compared to \$17 million in fiscal 2008. Note that for accounting purposes, investment losses (including losses associated with the endowment) are not included in the University’s operating result.

## OPERATING REVENUE

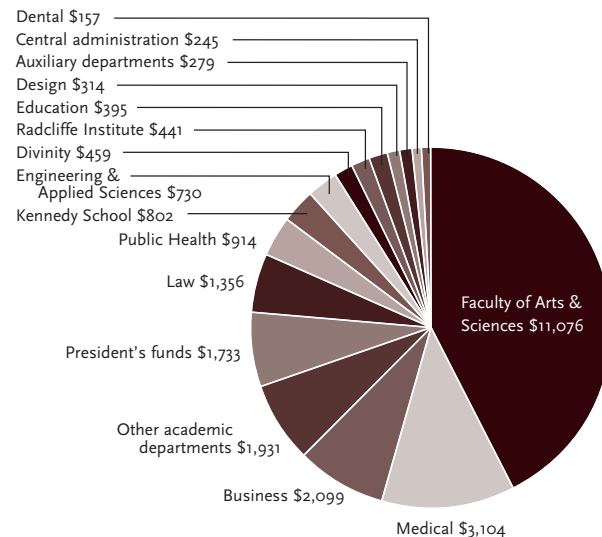
Total operating revenue rose 10% to \$3.8 billion. This was driven primarily by the growth in the University’s endowment income made available for operations which increased by 20%, from \$1.2 billion in fiscal 2008 to \$1.4 billion in fiscal 2009, and comprised nearly 38% of total operating revenue in fiscal 2009.

The decline in the endowment’s fair value—from \$36.9 billion as of June 30, 2008 to \$26.0 billion as of June 30, 2009—will have a significant impact on the University’s operations going forward. Harvard’s payout rate (i.e., the percentage of the endowment that is withdrawn annually for operations and for one-time or time-limited strategic purposes) was 4.6% in fiscal 2009 and we expect the fiscal 2010 payout rate to be approximately 6.0%. Despite this being well in excess of our targeted range of 5.0-5.5%—and the highest payout rate for the University in at least four decades—

it will cause a decrease estimated at 8% in absolute dollars made available from the endowment for operations in fiscal 2010. We will be managing the payout rate very carefully over the next several years in order to maintain an appropriate balance between supporting the University’s near-term programmatic needs and aspirations, and protecting the endowment’s long-term purchasing power.

## FAIR VALUE OF THE ENDOWMENT AS OF JUNE 30, 2009

*In millions of dollars*



**TOTAL FAIR VALUE \$26,035**

Sponsored revenue also was a key driver of increased operating revenue. Sponsored support increased by 7%, from \$668 million in fiscal 2008 to \$714 million in fiscal 2009. Growth in federal funding was 4% while non-federal funding increased by 16%. Notwithstanding the relatively small growth in federal sponsorship, Harvard made important progress with the Catalyst initiative. Harvard Catalyst is a grant-making enterprise dedicated to improving human health by supporting clinical and translational activities across the University and in Harvard's affiliated teaching hospitals. Harvard Catalyst is supported by a five-year, \$118 million award from the National Institutes of Health (NIH) of which \$21 million was received in fiscal 2009.

The budget of the NIH, from which Harvard receives approximately two-thirds of its federal funding, was increased significantly as part of the recently enacted American Recovery and Reinvestment Act (ARRA). While many University faculty have applied for ARRA grants from the NIH and other federal agencies, actual amounts awarded as of June 30, 2009 were immaterial.

Student revenue declined by 1%, from \$682 million in fiscal 2008 to \$678 million in fiscal 2009. This was due to a 20% increase in scholarships applied against student income. The increased commitment to financial aid was evident in both undergraduate and graduate/professional programs, and is reflective of the University's aspiration to give the best students access to Harvard regardless of their ability to pay. The most noteworthy accomplishments in fiscal 2009 were the major financial aid enhancements at Harvard College to ensure greater affordability for students across the income spectrum.

The enhancements result in a significant decline in contributions toward the undergraduate tuition package from parents with incomes of \$180,000 or less and assets typical for those income levels. Specifically, these parents are asked to contribute, on average, 10% of their total income toward the cost of the package. Additionally, home equity is no longer considered in determining a family's ability to contribute toward the cost of the undergraduate package, and students are not expected to take out loans (which have been replaced by need-based Harvard scholarships). These enhancements, combined with the continuation of the Harvard Financial Aid Initiative which eliminates the parental contribution for families earning \$60,000 or less, underscore the University's commitment to maintaining financial aid support for undergraduates.

Current use giving increased by 23%, from \$237 million in fiscal 2008 to \$291 million in fiscal 2009. Of note, the University received a \$21 million current use gift during fiscal 2009 as part of a \$125 million pledge toward the support of the new Wyss Institute for Biologically Inspired Engineering. Current use gifts from alumni and friends provide vital funding for the University's ongoing operations and strategic priorities, and are of particular importance in sustaining key programs in the face of reduced endowment distributions. Notwithstanding the significant increase in current use giving, overall receipts from giving (which include gifts designated as endowment) declined as shown in more detail in *Note 16* of the audited financial statements.

#### SUMMARY OF FINANCIAL RESULTS

<i>In millions of dollars</i>	2009	2008	2007	2006	2005
Total operating revenue	\$ 3,827.6	\$ 3,482.3	\$ 3,210.5	\$ 2,999.6	\$ 2,800.9
Total operating expenses	3,756.1	3,464.9	3,170.7	2,999.5	2,757.4
Total gifts	597.1	690.1	615.0	595.8	590.7*
Fixed assets, net	5,393.5	4,951.3	4,524.2	4,078.5	3,797.8
Total investments	31,480.3	43,804.3	41,832.9	34,249.6	29,938.2*
Bonds and notes payable	5,980.5	4,089.9	3,847.0	2,922.2	2,849.1
Net assets—General Operating Account	3,683.1	6,575.1	6,438.6	5,116.1	4,197.6
Net assets—endowment funds	26,035.4	36,926.7	34,912.1	29,219.4	25,853.0
Total return on general investments**	(27.3)%	8.6%	23.0%	16.7%	19.2%

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

\*\* Total return on general investments is net of all fees and expenses.

**OPERATING EXPENSES**

Operating expenses totaled \$3.8 billion, an 8% increase over fiscal 2008. Salaries, wages and benefits represented 49% of the University's total operating expenses in fiscal 2009 and increased by 11% to \$1.8 billion. The University has taken four important steps to reduce compensation expenses in response to the significant decline in endowment wealth. First, more aggressive practices were adopted across the University beginning last fall to slow both new hiring and the filling of vacant positions. Second, bonus payments were substantially eliminated in fiscal 2009 and salaries have been held flat in fiscal 2010 for faculty and exempt staff. Third, the University implemented a voluntary early retirement incentive program which was offered to 1,629 staff members and accepted by 533. And fourth, the University implemented reorganizations and other efficiency measures that resulted in a reduction in force affecting more than 275 positions. Although the latter two steps required approximately \$59 million in upfront costs (related to severance payments, retirement benefit incentives, etc.) that were expended or accrued in

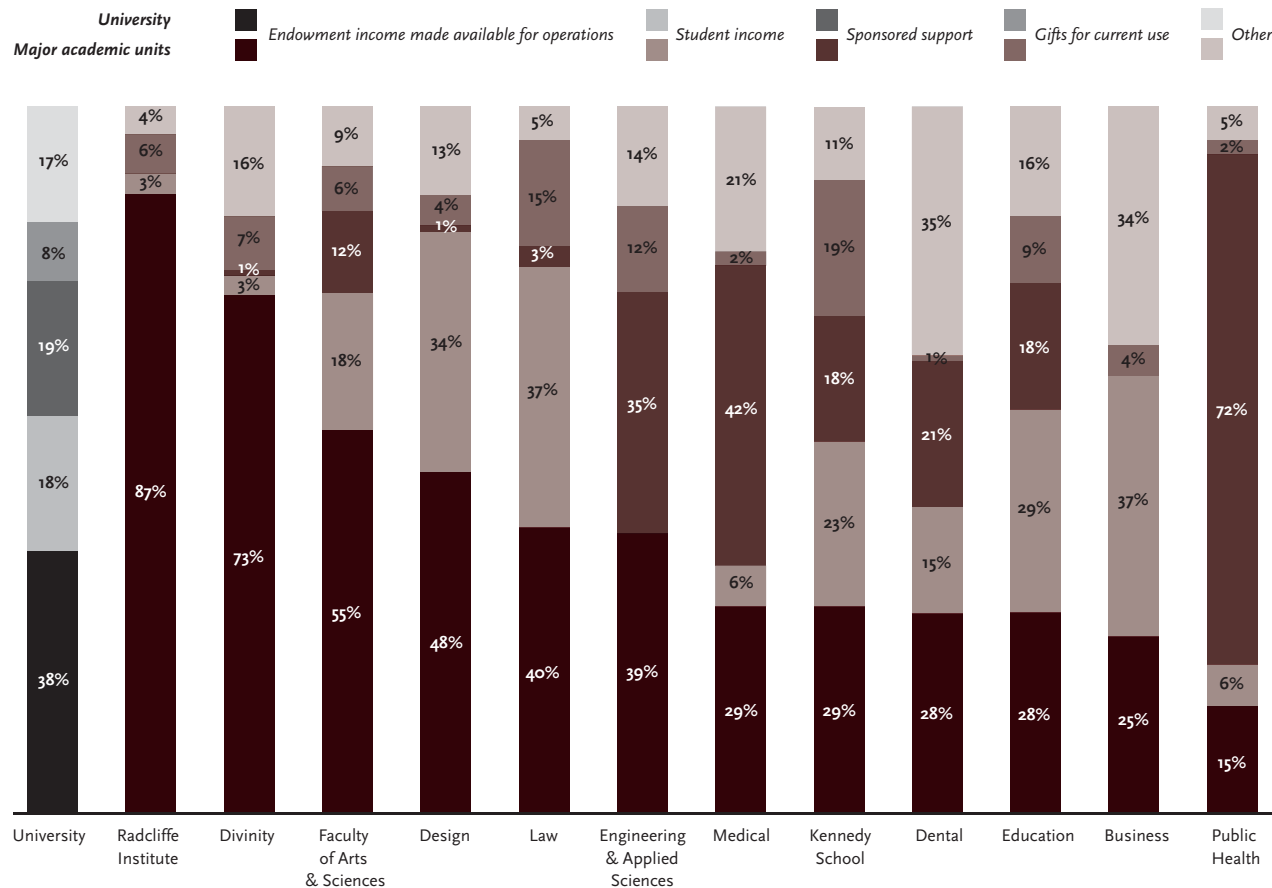
fiscal 2009, we anticipate that they will lead to material annual compensation savings in future years. In many other cost categories, including supplies and equipment, collections, maintenance, and travel, the University was able to reduce expenses significantly through more aggressive cost-conscious practices adopted throughout fiscal 2009. At the same time, the University incurred approximately \$58 million in increased interest costs primarily related to the University's new taxable and tax-exempt debt, as well as accounting charges relating to the reclassification of certain rental payments as capital leases.

**BALANCE SHEET**

**Investments**

The University's investment losses in fiscal 2009 were caused by three primary factors: the loss in market value of the endowment; losses related to the University's portfolio of pooled cash balances; and realized and unrealized losses on interest rate exchange agreements held by the University as part of the financing strategy for its capital program.

**FISCAL 2009 SOURCES OF OPERATING REVENUE**



As shown further in *Note 13* of the audited financial statements, the University pools and centrally manages cash balances held by its various Schools and departments. Historically, a substantial portion of this pooled cash has been invested alongside the endowment in the General Investment Account (GIA) managed by Harvard Management Company (HMC). In the past this investment approach has generated significant positive investment results for the University. With the unprecedented market events of fiscal 2009, the approach this past year resulted not in gains but rather in substantial losses in the University's pooled cash which are reported both on the *Balance Sheets*, and also in the *Statements of Changes in Net Assets with General Operating Account Detail* in the line item "Change in appreciation on GOA investments, net." In fiscal 2008, after an evaluation of the appropriate investment strategy for this specific pool of cash, we determined that we

would reduce the risk profile of the University's pooled cash investments, and we began implementing initial adjustments. In fiscal 2009, the risk reduction program was slowed by market conditions which required the University to prioritize efforts by HMC to manage liquidity risks within the GIA. We now are renewing our focus on the program and taking further steps toward de-risking these investments for the future.

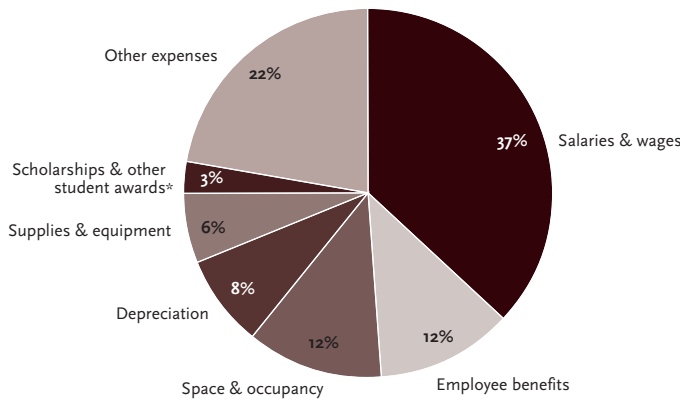
The aforementioned line item in the *Statements of Changes in Net Assets with General Operating Account Detail* also reflects realized and unrealized losses under interest rate exchange agreements. Harvard, like many other institutions with large capital programs, uses interest rate exchange agreements as an element of our overall debt management strategy. This strategy is intended to create a more stable budgetary environment, by reducing Harvard's exposure to rising interest rates. The University's portfolio of interest rate exchange agreements is described in more detail in *Note 11* of the audited financial statements.

In fall 2008, interest rates fell with an unprecedented swiftness and trajectory. These declines caused Harvard's interest rate exchange agreements to incur sudden and precipitous declines in value, which in turn led to significant increases in associated collateral pledged to counterparties, creating liquidity pressures on the University. In response, Harvard terminated certain of these agreements at a cash cost of approximately \$500 million. Following this and other risk reduction measures, the liquidity risk of the portfolio at June 30, 2009 has been managed to levels that we consider appropriate, although we engage in regular monitoring and are prepared to take further action should the need arise.

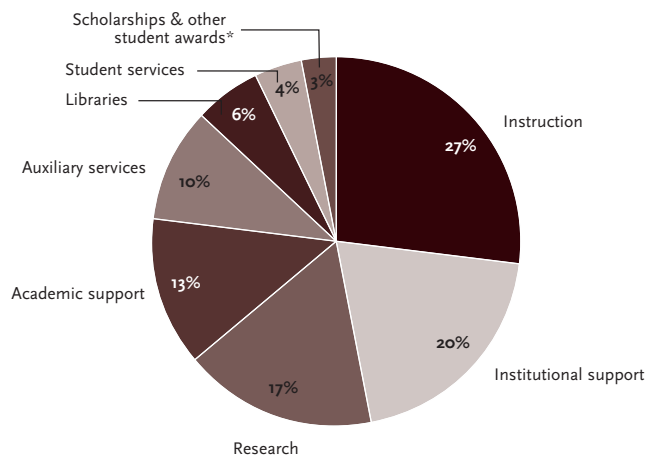
### Debt

The University issued \$1.0 billion in tax-exempt debt and \$1.5 billion in taxable debt during fiscal 2009. The tax-exempt issuance was intended to manage liquidity risk by refinancing variable-rate bonds. The taxable debt issuance was undertaken to enhance the University's flexibility by increasing its cash position. The University has benefited from the enhanced protection and flexibility provided by the new debt, despite the significant incremental interest expense noted above. Importantly, the University continues to maintain its AAA/Aaa credit ratings with Standard & Poor's and Moody's Investors Service, both of which were affirmed in

### FISCAL 2009 OPERATING EXPENSES



### FISCAL 2009 FUNCTIONAL EXPENSES



\*Excludes \$302.4 million in scholarships applied to student income.

connection with the two bond issues. More detail on these debt issuances, and the University's broader debt portfolio, can be found in *Note 11* of the audited financial statements.

### Retirement Obligations

As of June 30, 2009, the University's retirement assets related to its defined benefit plans were \$43 million less than the plan's liabilities for accounting purposes. This compares with an "overfunded" position of \$294 million as of June 30, 2008 (i.e., plan assets exceeded plan liabilities as of that date). The underfunded position as of June 30, 2009 was driven primarily by a negative investment return of \$169 million, and also by \$43 million of additional plan liabilities associated with the early retirement incentive program. The fair value of plan assets as of June 30, 2009 was \$681 million. The University does not expect to be required to contribute to the defined benefit plan in fiscal 2010 under the Pension Protection Act of 2006, because for ERISA purposes, the plan actually remained overfunded as of January 1, 2009 (i.e. plan assets exceeded the accumulated benefit obligation at that time). The University is committed—regardless of funding status—to fully meet its obligations to defined benefit plan participants.

### Capital Expenses

The University invested \$644 million in capital projects and acquisitions during fiscal 2009. Of this amount, 61% was spent on new construction and acquisitions and 39% was invested in the existing physical plant.

The University continued to advance several important capital projects. Harvard Law School continued construction on its Northwest Corner building including an associated underground parking garage. The Harvard Art Museum has undertaken several relocation projects that will enable the renovation and expansion of 32 Quincy Street. And the Arnold Arboretum is nearing completion of its Weld Hill research and administrative building.

Construction on the Harvard Allston Science Complex, which began in January 2008 after an intensive public review process and approval by the Boston Redevelopment Authority, continued in fiscal 2009. However, in light of the University's new economic reality, President Faust determined that, simultaneous with continued construction to bring the structure

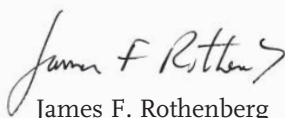
to ground level, Harvard would assess its alternatives with regard to the complex. This assessment is ongoing, in the context of a broader re-examination of the scale and pacing of our aspirations to develop the Allston campus.

The University remains committed to the academic programs that originally were designated to occupy the Allston Science Complex. Toward that end, Harvard is undertaking a significant renovation of several science buildings on the Cambridge campus in order to accommodate the space needs of the University's Stem Cell and Regenerative Biology department. The University also has leased space in the Longwood Medical Area to serve as the principal site for the Wyss Institute for Biologically Inspired Engineering.

Notwithstanding the challenges we have faced during fiscal 2009, Harvard's financial foundation is strong and will continue to enable the University to deliver on its guiding purposes: to achieve excellence in research and education; to prepare students for leadership and for lives of meaning and value; to advance the course of knowledge and ideas; and to serve society. Like many other institutions, we have been reminded during the past year about the volatility of markets and the need to pay close attention to managing financial risk. But we also have been reminded of the dedication, expertise and passion of the many faculty, staff and alumni with whom we have engaged to discuss and resolve complicated issues that in many cases were truly unprecedented; and of the boundless energy of the many stakeholders within the Harvard community who have taken up the task of adapting to a new economic reality for the University. We are grateful to all of our students, faculty, staff, alumni and friends, for their continuing and unwavering support of Harvard University.



Daniel S. Shore  
VICE PRESIDENT FOR FINANCE AND  
CHIEF FINANCIAL OFFICER



James F. Rothenberg  
TREASURER

October 4, 2009

# Annual Report of Harvard Management Company

The fiscal year that ended June 30, 2009 marked the close of what was very likely the most challenging period in modern times for the financial markets as well as for the Harvard portfolio. We saw extreme uncertainty in our economy and a level of volatility and dysfunction in many types of investments that went well beyond all previous experience. At Harvard Management Company (“HMC”), we actively managed the endowment through truly unprecedented market conditions over the past year while maintaining the long-term focus on investment opportunities that has served Harvard so well historically.

## OVERVIEW OF THE PAST YEAR

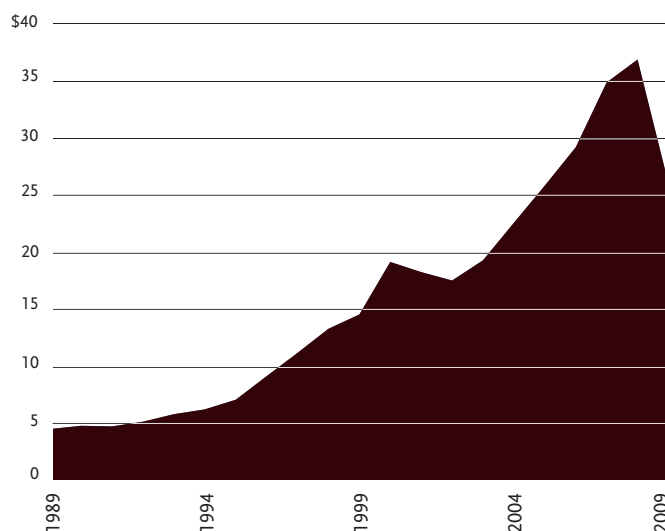
As of June 30, 2009, the value of Harvard’s endowment was \$26.0 billion. The return on the investments managed by HMC during fiscal 2009 was negative 27.3% and positive 6.2% annualized for the last five fiscal years. This compares with the return on our Policy Portfolio benchmark of negative 25.2% during fiscal 2009, and positive 3.9% annualized for the last five fiscal years. Clearly, the last year was a difficult one for Harvard as it was for almost all institutional investors.

Longer-term results, discussed in more detail later, are strong, even after the broad downdrafts of the past year. This strong long-term endowment performance has been increasingly critical to the University and its operating budget.

As markets worldwide corrected sharply last summer and fall, the endowment’s return was negatively impacted both absolutely and relatively. Our portfolio had its share of challenges.

## FAIR VALUE OF THE ENDOWMENT

In billions of dollars



## HISTORICAL INVESTMENT RETURN ANNUALIZED FOR PERIODS GREATER THAN ONE YEAR

	Harvard <sup>1</sup>	Policy Portfolio Benchmark <sup>2</sup>	60/40 stock/bond Portfolio <sup>3</sup>	TUCS Median <sup>4</sup>
1 year	(27.3)%	(25.2)%	(13.5)%	(18.2)%
5 years	6.2	3.9	1.0	2.5
10 years	8.9	4.5	1.4	3.2
20 years	11.7	9.5	7.8	8.0

## FISCAL 2009 PERFORMANCE

	Harvard <sup>1</sup>	Policy Portfolio Benchmark <sup>2</sup>	Relative
Public market equities	(28.3)%	(28.5)%	0.2%
Private equity	(31.6)	(23.9)	(7.7)
Absolute return	(18.6)	(13.2)	(5.4)
Real assets	(37.7)	(38.5)	0.8
Fixed income	(4.1)	(3.4)	(0.7)
Total investments	(27.3)	(25.2)	(2.1)

<sup>1</sup> Total return is net of all fees and expenses.

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

<sup>3</sup> S&P 500/CITI US BIG

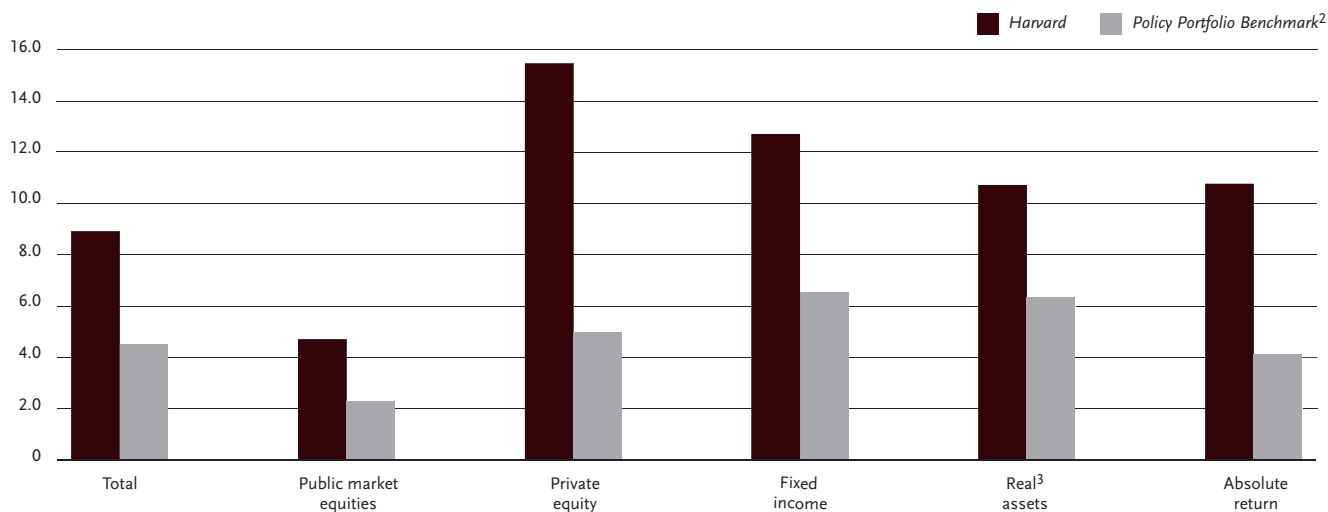
<sup>4</sup> Trust Universe Comparison Service as compiled by Wilshire Associates.

With a few notable exceptions, nearly every asset class did poorly. Our real estate portfolio, for example, suffered a loss of over 50% during the year after considering all final marks through June 30, 2009. While diversification has been a mainstay and a driver of the portfolio's return over the long-term, the benefits of diversification did not bear out through the rapidly evolving and widespread events that unfolded in fiscal 2009.

With perfect hindsight we and most other investors would have started this year in a more liquid position and with less exposure to some of the alternative asset categories that were hardest hit during fiscal 2009. It is important to note, however, that our portfolio has

benefited greatly from our asset allocation over the long-term, which has included substantial exposure to less conventional asset classes. Private equity, for example, has earned an average of 15.5% per year for the Harvard portfolio for the last ten years even after a 32% correction in fiscal 2009. Our natural resources portfolio, a more recent addition, has returned 13.0% per year for the last ten years. It would be a mistake to categorically avoid these types of investments because they are less liquid. But the balance of liquid and illiquid investments within the portfolio needs to remain in the forefront of our portfolio strategy.

#### 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, which is calculated on a dollar-weighted basis. Returns are net of all fees and expenses.

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

<sup>3</sup> Real assets consist of investments in liquid commodities, natural resources, and real estate.

We are never pleased with negative results either relative or absolute. However, HMC's active management during fiscal 2009, involving every area of the company and every part of the portfolio, helped control the damage against the headwinds we faced. Some specifics include:

- Enhanced comprehensive management across investment platforms instituted through the newly-created positions of Head of Internal Management and Head of External Management;
- Stronger operations management spearheaded by the newly-created position of Chief Operating Officer;
- Creative approaches to managing some of our illiquid exposures including early exploration of private equity secondary markets;
- Quick reactions on the part of our internal portfolio managers to both changing market conditions and the portfolio's liquidity needs.

Even in a year like this one, where virtually every asset class behaved in ways that were highly correlated, some of our individual strategies performed well:

- HMC's international fixed income team had an extraordinary year, outperforming its benchmark by over 900 basis points in fiscal 2009 (and achieving average outperformance of nearly 400 basis points over the last three fiscal years);
- Our internal emerging markets team outperformed its market by a meaningful margin (370 basis points) in fiscal 2009, amidst a sharply negative and rapidly evolving market;
- The natural resources portfolio was nearly flat in an environment of negative returns for virtually all other growth assets, confirming the diversification benefit of this category of investments even in turbulent markets;
- The overall portfolio performance was buffered by positive returns in a category of trades employed as top-down portfolio hedges.

Active management was essential throughout this period. We worked decisively to make changes to our asset allocation and to increase our flexibility early in the fiscal year. Once the ship was steadied, the team adjusted its focus to incorporate incremental market exposure and active investments within the portfolio over the last few months. We never lost sight of our focus on our long-term goal to seek substantial growth in endowment assets while managing investment risk on behalf of the University. We are acutely aware that the investment portfolio must support current University operations and maintain the purchasing power of the endowment over time.

### THE POLICY PORTFOLIO AND RELATIVE PERFORMANCE

The underlying framework for our investment activity is the Policy Portfolio, a concept that has been employed by HMC for many years. The Policy Portfolio represents our best thinking about the optimal long-term mix for Harvard's endowment assets.

The Policy Portfolio is a theoretical portfolio allocated among asset classes in a mix that is judged to be most appropriate for the University from both the perspective

of potential return and risk. The HMC Board and management team create the Policy Portfolio and review it for continued fit with the University's risk profile and our projections of long-term market returns, volatility and correlations. The Policy Portfolio provides us with a guide as to the actual allocation in the investment portfolio and also serves as a measuring stick against which we judge the success of our active investment management activities. As in any measure of investment performance, long-term results relative to the Policy Portfolio are most meaningful.

The following table shows the evolution of the Policy Portfolio:

	Fiscal year		
	1995	2005	2010
Domestic equities	38%	15%	11%
Foreign equities	15	10	11
Emerging markets	5	5	11
Private equities	12	13	13
<b>Total equities</b>	<b>70</b>	<b>43</b>	<b>46</b>
Commodities	6	13	14
Real estate	7	10	9
<b>Total real assets</b>	<b>13</b>	<b>23</b>	<b>23</b>
Domestic bonds	15	11	4
Foreign bonds	5	5	2
High-yield	2	5	2
Inflation-indexed bonds	0	6	5
<b>Total fixed income</b>	<b>22</b>	<b>27</b>	<b>13</b>
Absolute return	0	12	16
Cash	-5	-5	2
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

HMC's active management of the investment portfolio relative to the Policy Portfolio has added an average of 4.4% per year to our returns over the last 10 years. During fiscal 2009 the investment portfolio underperformed the Policy Portfolio by 2.1%. Our underperformance relative to the Policy Portfolio in part stemmed from the fact that our portfolio entered the crisis with some complicating factors including:

- Aggressive commitments to illiquid asset classes;
- Within liquid asset classes, a larger proportion of strategies with long holding periods;
- A lack of ready liquidity in the portfolio to meet our obligations along with the needs of the University.

Both our internally and externally managed portfolios suffered from our overall lack of ready access to sufficient liquidity going into the financial crisis. For example, our internally managed domestic fixed income portfolio carried exposure to some of the structured credit securities that were most impacted as the market imploded. A subset of our external hedge fund managers, while experiencing their own performance problems, changed their investors' ability to redeem capital, ostensibly to protect their funds' remaining assets. We have made changes to both of these areas and other aspects of the portfolio to increase the flexibility and control we have in managing our funds while maintaining attractive return expectations.

It would be unrealistic to expect to beat the Policy Portfolio each and every year. However, over the last ten years HMC has added \$13 billion of value over the return of the Policy Portfolio and \$18 billion of value over what would have been earned by a simple 60/40 stock/bond portfolio.

### STRATEGIC REORIENTATION

Harvard's endowment remains a core strength of the University, supporting the outstanding teaching and research that is central to Harvard's mission. Even after the decline suffered this past year, Harvard's endowment is significantly larger than that of any other university and has demonstrated long-term performance superior to what would have been achieved had HMC pursued a more conservative investment strategy over the longer term.

We remain committed to the basic principle of managing and measuring ourselves against a Policy Portfolio benchmark focused on long-term returns and appropriate risk management. Managing the Harvard portfolio through the unprecedented market turmoil of the last twelve months has been challenging, but it also has provided us with an opportunity to begin to position HMC and the investment portfolio in new ways.

Importantly, we have taken action to increase flexibility, reduce leverage and position ourselves to explore the most attractive investment themes that we foresee emerging from the crisis we have experienced. With increased market liquidity, we rebalanced the portfolio

productively towards undervalued assets. We have decreased our uncalled capital commitments by roughly \$3 billion. We have increased the depth and breadth of talent in our investment team. We have begun reorienting our strategy and our organization to better fit with what we believe will be a rich and complex opportunity set in the future.

Past changes to the Policy Portfolio generally have been incremental. We are now in the process of rethinking certain aspects of the model to better suit current realities and lessons learned. Elements of the re-engineered Policy Portfolio may include:

- Fewer distinctions among the finely tuned asset classes to encourage greater collaboration among our teams in exploring investment themes;
- Greater concentration in areas where HMC has unique competitive strengths such as fixed income and real assets;
- Rigorous reassessment of the fit between the endowment's risk profile and the University's needs.

We expect these adjustments to our investment approach and strategy to maximize our effectiveness as active managers and to yield results over time that are well suited to the University's needs and risk parameters.

### ORGANIZATION AND STRUCTURE

This has also been a year of change for HMC. In July 2008, I returned to HMC as CEO. Before rejoining HMC, I served as Chief Investment Officer at Wellesley College for six years. Prior to that experience, I was a senior member of the investment team at HMC for 15 years (1987–2002) starting my tenure as a member of the internal management team in public equities and ending as the portfolio manager in charge of all of the endowment's externally managed assets.

While HMC has made many changes in recent times, we continue to employ a "hybrid model"—a unique approach to endowment management. We use a mix of internal and external investment management teams that focus on specific investment areas. We believe this gives us the best of both worlds—top-quality investment management by our internal team and access to cutting edge capability from specialized teams around

the world through our externally managed portfolio. While some parts of the portfolio, like private equity, are better suited for external management, and others, like parts of the publicly traded markets, lend themselves more naturally to internal strategies, we are not compelled to manage internally or externally in any particular proportion. Rather, we will use the mix of internal and external managers that best represents our conviction regarding opportunities and gives us access to the best possible strategies.

The benefits of the hybrid model are both broad and deep:

- Harvard's partnerships with investment management teams around the world provide diversification, insight, and perspective that goes beyond what could possibly be achieved through our relatively small team in Boston;
- Our internal investment management team, currently responsible for investing approximately a third of the portfolio, is our eyes and ears on the markets—constantly attuned and responsive to changing conditions, and frequently ahead of the curve in recognizing market inefficiencies and ways that we might profit from them;
- In addition to this close feel for the markets, our internal management approach gives us increased control, total transparency and greater nimbleness in the face of changing market conditions or University needs. Finally, our internal team is extraordinarily cost effective—with total expenses equal to a fraction of the costs of employing outside managers for similar asset pools with similar results.

For all of these reasons, while we do not have a specific target for internal or external management as a proportion of the total portfolio, we are looking to increase the share of our internally managed assets under the right conditions.

Over the last year the management team and investment support structure has been strengthened substantially including the addition of a Chief Operating

Officer, Bob Ettl. Bob joined HMC in October with extensive experience most recently at Allianz/PIMCO. Bob has significantly redesigned and upgraded the investment support organization of the company and has added considerable bench strength including a new Chief Financial Officer and new Chief Technology Officer.

In further positioning HMC as an organization driven to uncover and integrate the highest quality investment opportunities across traditional asset classes, the individual investment teams were aggregated this year under two of our senior investment professionals. As the new Head of Internal Management, Stephen Blyth oversees the investment portfolios and strategies of the public equity, fixed income and foreign currency specialists investing directly for Harvard. Andy Wiltshire, our new Head of External Management, manages the groups making investments utilizing outside managers or partners in areas such as private equity, real estate, natural resources and marketable securities.

With the management team substantially in place, we implemented a restructuring in February to better align our company structure with investment opportunities going forward. We are now focused on strengthening staff and adding world-class talent to supplement our core areas of expertise. As a result, we recently made several additions to our investment teams, including in fixed income/Asian markets, in equity arbitrage, in real estate and in externally managed funds. We will continue to seek out exceptional individuals with unique investment insights that will drive value for the portfolio.

### COMPENSATION AT HMC

The investment management team at HMC is compensated in a way that achieves exceptionally strong alignment of interest between the manager and the University. For each asset class a benchmark is established that reflects the return that can be achieved by a passive investor (e.g., the S&P 500 is the benchmark for a large cap equity manager). When a manager outperforms their market benchmark, they earn a performance bonus which is based on the dollars of

value added to the endowment portfolio over and above the benchmark. It is important to note that a sizable portion of this earned bonus is held back against the risk of possible underperformance by the manager in subsequent years. This approach has the effect of focusing the manager on sustained outperformance over multi-year periods and guards against rewarding outperformance gained through inappropriate risk-taking. As a result of this system, last year a substantial number of portfolio managers at HMC had portions of their bonuses earned in prior years “clawed back” into the endowment. A smaller group of managers—those who outperformed their markets in fiscal 2009—retained their past bonuses while earning additional performance compensation this year.

### RISK MANAGEMENT

Risk management is a critical component of successful portfolio management and must be integrated into the fabric of our investment strategy in order to protect the assets we are managing. HMC management and the HMC Board devote substantial staff, time and attention to the complexities that relate to the risk inherent in our portfolio.

There are multiple forms of risk in an investment portfolio—market risk, leverage, counterparty risk, illiquidity, the risk of stronger-than-expected correlation and the risk of less-than-complete transparency. The past year has offered up many lessons regarding the means to perceive, measure and control risk in a highly diversified portfolio such as Harvard’s. Overall, our risk management was adequate. We did not suffer the extreme volatility of many of the markets in which we participate. We did not find we were in partnership with fraudulent third party management. Even with the bankruptcy of Lehman Brothers and other major credit events, we had negligible losses related to counterparty risk. We kept the ship righted in a real-life correction that exceeded our most extreme theoretical stress tests.

All of this having been said, we can do and are doing more to manage the risks we face, given the lessons of the past year. The most important of these lessons is that the risk tolerance of the University continues to be a critical factor in the decisions regarding asset allocation, flexibility and accessibility of the investment strategies we choose.

### THE ROAD AHEAD

As we enter the new fiscal year, many questions remain about the underlying health of the world economies albeit there have been recent encouraging signs of slower deterioration and possible growth in profits ahead. Massive government stimulus has provided some optimism in the markets, but spirited debates continue about the dangers of specific sectors including the financial institutions upon which so many markets and consumers depend.

We continue to debate the dueling threats of inflation and deflation, and can make cases for both. In any event, we expect a prolonged period of instability and slower growth in some markets. For the economy overall, we do not anticipate a quick return to the rapid, sustained growth experienced in recent times.


Even so, there will be many opportunities to create value through prudent and creative investment strategies in the coming months and years. In times of uncertainty active management is increasingly important. We expect to find some of our most interesting investment opportunities outside of and across traditional asset class boundaries and are pursuing investments consistent with this theme today. While we will be guided by our Policy Portfolio, we will continue to explore with rigor creative new opportunities whether contemplated by the Policy Portfolio or not (such as our timberland investments were when they were first made). In addition, we will maintain a continuous measure of accessible liquidity in the portfolio to preserve both our ability to capture unforeseen opportunities and to support the needs of the University.

In navigating the past year's storm, we have developed greater financial flexibility, strengthened our investment team, sharpened our focus and positioned both HMC and the Harvard portfolio to be robust, steady and importantly, poised to benefit from growth in the world's economies. We have reset the building blocks for a solid, innovative and sustainable investment strategy. Given all of this, we have ample cause for optimism in the next few years particularly given the following:

- Our liquidity is much improved and increasingly under our control;
- Our HMC team is stronger and the opportunity to engage new talent is greater than it has been in years;
- We are alert to new and different ways of looking at what have become the traditional models.

While we are implementing a variety of shifts to our portfolio strategy and are confident that these shifts will bear fruit over time, it is important to be realistic about near-term returns and about our expectations for several years to come. The impact of the events of 2008–2009 will not be reversed overnight. For Harvard, as for almost every major investor, regaining the market value lost as a result of the recent global economic crisis will take time.

Few could have predicted the extent of the external market turmoil of the past year. As we enter a new fiscal year, we continue to be inspired by the mission of this great university and the role of HMC in supporting that mission. We are confident that the portfolio is well positioned, from both a risk and return standpoint, to support the University and its operations into the future.



Jane L. Mendillo  
PRESIDENT AND CEO

**October 4, 2009**

## 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") at June 30, 2009, 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 2008 financial statements, and in our report dated October 5, 2008, 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.

Effective July 1, 2008, the University changed the manner in which it evaluates the fair value of financial instruments.

*PricewaterhouseCoopers LLP*

October 4, 2009

**BALANCE SHEETS**

with summarized financial information as of June 30, 2008

In thousands of dollars	June 30	
	2009	2008
<b>ASSETS:</b>		
Cash	\$ 34,182	\$ 27,307
Receivables, net (Note 5)	178,730	249,359
Prepayments and deferred charges	151,197	121,834
Notes receivable, net (Note 6)	357,445	336,085
Pledges receivable, net (Note 7)	785,290	626,479
Fixed assets, net (Note 8)	5,393,464	4,951,329
Net retirement assets (Note 12)		293,560
Interests in trusts held by others (Notes 4, 9 and 13)	276,571	341,990
Investment portfolio, at fair value (Notes 3 and 4)	34,759,859	51,084,894
Fair value of securities pledged to counterparties (Notes 3 and 4)	3,067,027	6,398,168
<b>TOTAL ASSETS</b>	<b>45,003,765</b>	<b>64,431,005</b>
<b>LIABILITIES:</b>		
Accounts payable (Note 20)	350,212	413,674
Deposits and other liabilities (Note 8)	679,619	509,873
Securities lending and other liabilities associated with the investment portfolio (Notes 3, 4 and 11)	6,346,554	13,678,751
Liabilities due under split interest agreements (Note 10)	696,987	908,259
Bonds and notes payable (Note 11)	5,980,451	4,089,912
Accrued retirement obligations (Note 12)	740,116	607,427
Government loan advances (Note 6)	69,540	58,902
<b>TOTAL LIABILITIES</b>	<b>14,863,479</b>	<b>20,266,798</b>
<b>NET ASSETS</b>	<b>30,140,286</b>	<b>44,164,207</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 45,003,765</b>	<b>\$ 64,431,005</b>

	Unrestricted	Temporarily restricted	Permanently restricted	June 30	
				2009	2008
<b>NET ASSETS:</b>					
General Operating Account (Note 13)	\$ 2,414,084	\$ 1,176,696	\$ 92,362	\$ 3,683,142	\$ 6,575,052
Endowment (Note 9)	4,250,770	17,071,925	4,712,694	26,035,389	36,926,693
Split interest agreements (Note 10)		63,891	357,864	421,755	662,462
<b>TOTAL NET ASSETS</b>	<b>\$ 6,664,854</b>	<b>\$ 18,312,512</b>	<b>\$ 5,162,920</b>	<b>\$ 30,140,286</b>	<b>\$ 44,164,207</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, 2008

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended	
				June 30	
				2009	2008
<b>OPERATING REVENUE:</b>					
Student income:					
Undergraduate program	\$ 240,139			\$ 240,139	\$ 232,070
Graduate programs	371,826			371,826	357,071
Board and lodging	141,084			141,084	131,061
Continuing education and executive programs	227,673			227,673	213,919
Scholarships applied to student income (Note 14)	(302,369)			(302,369)	(252,126)
<b>Total student income</b>	<b>678,353</b>	<b>0</b>	<b>0</b>	<b>678,353</b>	<b>681,995</b>
Sponsored support (Notes 15 and 16):					
Federal government - direct costs	419,658			419,658	398,084
Federal government - indirect costs	139,005			139,005	136,870
Non-federal sponsors - direct costs	53,211	\$ 84,224		137,435	119,215
Non-federal sponsors - indirect costs	11,659	5,881		17,540	14,257
<b>Total sponsored support</b>	<b>623,533</b>	<b>90,105</b>	<b>0</b>	<b>713,638</b>	<b>668,426</b>
Gifts for current use (Note 16)	140,061	151,170		291,231	236,599
Investment income:					
Endowment income made available for operations (Note 9)	250,066	1,192,458		1,442,524	1,201,307
Income on COA investments made available for operations	157,029	31,490		188,519	175,056
Interest earned on student, faculty, and staff loans	7,443			7,443	8,047
<b>Total investment income</b>	<b>414,538</b>	<b>1,223,948</b>	<b>0</b>	<b>1,638,486</b>	<b>1,384,410</b>
Other income (Note 17)	505,856			505,856	510,887
Net assets released from restrictions	1,374,714	(1,374,714)		0	0
<b>TOTAL OPERATING REVENUE</b>	<b>3,737,055</b>	<b>90,509</b>	<b>0</b>	<b>3,827,564</b>	<b>3,482,317</b>
<b>OPERATING EXPENSES:</b>					
Salaries and wages	1,384,626			1,384,626	1,298,604
Employee benefits (Note 12)	456,109			456,109	362,067
Scholarships and other student awards (Note 14)	122,479			122,479	110,532
Supplies and equipment	224,404			224,404	235,031
Space and occupancy (Note 11)	445,071			445,071	411,095
Depreciation (Note 8)	288,450			288,450	246,654
Other expenses (Notes 11 and 18)	834,932			834,932	800,910
<b>TOTAL OPERATING EXPENSES</b>	<b>3,756,071</b>	<b>0</b>	<b>0</b>	<b>3,756,071</b>	<b>3,464,893</b>
<b>NET REVENUE/(DEFICIT)</b>	<b>(19,016)</b>	<b>90,509</b>	<b>0</b>	<b>71,493</b>	<b>17,424</b>
<b>OTHER PROVISIONS AND CREDITS:</b>					
Change in appreciation on COA investments, net (Note 11)	(2,819,425)	475		(2,818,950)	68,961
Change in undistributed general investment income	(60,902)	(106,919)		(167,821)	(231,663)
Other changes (Note 12)	(338,363)			(338,363)	(29,299)
<b>TOTAL OTHER PROVISIONS AND CREDITS</b>	<b>(3,218,690)</b>	<b>(106,444)</b>	<b>0</b>	<b>(3,325,134)</b>	<b>(192,001)</b>
<b>CAPITAL CHANGES:</b>					
Change in pledge balances (Note 7)		154,470		154,470	8,260
Change in interests in trusts held by others (Note 13)		(7,794)		(7,794)	15,761
Capital gifts for loan funds and facilities (Note 16)		2,355	\$ 294	2,649	4,865
Transfers between the COA and endowment (Note 9)	220,339	(44,202)		176,137	268,061
Transfers between the COA and split interest agreements (Note 10)		34,148	2,121	36,269	14,071
Non-operating net assets released from restrictions	63,658	(64,950)	1,292	0	0
<b>TOTAL CAPITAL CHANGES</b>	<b>283,997</b>	<b>74,027</b>	<b>3,707</b>	<b>361,731</b>	<b>311,018</b>
<b>GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR</b>	<b>(2,953,709)</b>	<b>58,092</b>	<b>3,707</b>	<b>(2,891,910)</b>	<b>136,441</b>
Endowment net change during the year	(1,889,978)	(9,097,895)	96,569	(10,891,304)	2,014,625
Split interest agreement net change during the year (Note 10)		(124,646)	(116,061)	(240,707)	20,753
<b>NET CHANGE DURING THE YEAR</b>	<b>(4,843,687)</b>	<b>(9,164,449)</b>	<b>(15,785)</b>	<b>(14,023,921)</b>	<b>2,171,819</b>
Net assets, beginning of year	11,508,541	27,476,961	5,178,705	44,164,207	41,992,388
<b>NET ASSETS, end of year</b>	<b>\$ 6,664,854</b>	<b>\$ 18,312,512</b>	<b>\$ 5,162,920</b>	<b>\$ 30,140,286</b>	<b>\$ 44,164,207</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, 2008

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30	
				2009	2008
Investment return (Note 3):					
Income from general investments	\$ 18,912	\$ 88,639		\$ 107,551	\$ 248,133
Change in realized and unrealized appreciation	(1,583,048)	(8,115,528)		(9,698,576)	2,632,842
Total investment return	(1,564,136)	(8,026,889)	0	(9,591,025)	2,880,975
Endowment income made available for operations	(250,066)	(1,192,458)		(1,442,524)	(1,201,307)
Change in undistributed general investment income	24,047	121,236		145,283	202,045
Net investment return after distributions	(1,790,155)	(9,098,111)	0	(10,888,266)	1,881,713
Gifts for capital (Note 16)	8,895	26,948	\$ 158,616	194,459	336,059
Transfers between endowment and the COA (Note 9)	(220,339)	44,202		(176,137)	(268,061)
Capitalization of split interest agreements (Note 10)		36,598	10,512	47,110	23,843
Change in pledge balances (Note 7)		(11,266)	14,191	2,925	93,247
Change in interests in trusts held by others (Note 9)		(7,549)	(50,076)	(57,625)	(32,065)
Other changes	(604)	(20,722)	7,556	(13,770)	(20,111)
Net assets released from restrictions	112,225	(67,995)	(44,230)	0	0
<b>NET CHANGE DURING THE YEAR</b>	<b>(1,889,978)</b>	<b>(9,097,895)</b>	<b>96,569</b>	<b>(10,891,304)</b>	<b>2,014,625</b>
Net assets of the endowment, beginning of year	6,140,748	26,169,820	4,616,125	36,926,693	34,912,068
<b>NET ASSETS OF THE ENDOWMENT, end of year</b>	<b>\$ 4,250,770</b>	<b>\$ 17,071,925</b>	<b>\$ 4,712,694</b>	<b>\$ 26,035,389</b>	<b>\$ 36,926,693</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	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (14,023,921)	\$ 2,171,819
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	288,450	246,654
Change in fair value of interest rate exchange agreements	347,769	317,084
Change in interests in trusts held by others	65,419	16,304
Change in liabilities due under split interest agreements	(211,272)	1,678
Realized and unrealized loss/(gain) on investments, net	11,978,540	(3,170,532)
Gifts of securities	(48,134)	(93,636)
Gifts restricted for capital purposes	(187,174)	(274,874)
Changes in operating assets and liabilities:		
Receivables, net	70,629	(41,360)
Prepayments and deferred charges	(29,363)	(23,116)
Decrease in net retirement assets	293,560	9,722
Increase in accrued retirement obligations	132,689	61,729
Pledges receivable, net	(158,811)	(101,507)
Accounts payable	(40,006)	43,269
Deposits and other liabilities	104,846	31,402
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	<b>(1,416,779)</b>	<b>(805,364)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loans made to students, faculty, and staff	(56,596)	(56,515)
Payments received on student, faculty, and staff loans	35,211	28,657
Change in other notes receivable	25	(584)
Proceeds from the sales of gifts of securities	48,134	93,636
Proceeds from the sales and maturities of investments	68,393,833	72,683,691
Purchases of investments	(66,557,720)	(71,950,544)
Additions to fixed assets	(681,165)	(680,224)
<b>NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>1,181,722</b>	<b>118,117</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in overdrafts included in accounts payable	(7,976)	6,312
Proceeds from the issuance of debt	3,464,067	1,737,010
Debt repayments	(1,573,528)	(1,494,076)
Gifts restricted for capital purposes	187,174	274,874
Change associated with securities lending agreements	(1,838,443)	148,878
Increase in government loan advances	10,638	1,756
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>241,932</b>	<b>674,754</b>
<b>NET CHANGE IN CASH</b>	<b>6,875</b>	<b>(12,493)</b>
Cash, beginning of year	27,307	39,800
<b>CASH, end of year</b>	<b>\$ 34,182</b>	<b>\$ 27,307</b>
Supplemental disclosure of cash flow information:		
Change in accounts payable related to fixed asset additions	\$ (15,480)	\$ (6,403)
Non-cash additions to fixed assets related to capital leases	64,900	
Cash paid for interest	148,488	145,391

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 7,160 undergraduate and 13,070 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 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, 2008, from which the summarized information is derived. Certain prior year amounts have been reclassified to conform to current year presentation.

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 85% of the University’s unrestricted net assets as of June 30, 2009. 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 and income, which must be reported as temporarily restricted net assets until appropriated for spending 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 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 made available 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

Effective July 1, 2008, the University adopted Financial Accounting Standards Board (FASB) 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. The effect of adopting FAS 157 is further discussed in *Notes 3 and 4*.

The FASB issued Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (FSP FAS 157-3). FSP FAS 157-3 clarifies that determining fair value in an inactive or dislocated market depends on facts and circumstances and requires significant management judgment. Specifically, this statement specifies that it is acceptable to use inputs based on management estimates or assumptions, or for management to make adjustments to observable inputs to determine fair value when markets are not active and relevant observable inputs are not available. The University’s valuation policy is consistent with the guidance in FSP FAS No. 157-3.

The FASB issued Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. Specifically, it emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, a fair value measurement assumes that the asset or liability is exchanged in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date. The University’s valuation policy is consistent with the guidance in FSP FAS No. 157-4.

The FASB issued Staff Position No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB No. 161* (FSP FAS 133-1). FSP FAS 133-1 amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by sellers of credit derivatives that address the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of credit derivatives. The effect of adopting FSP FAS 133-1 and FIN 45-4 is addressed in *Note 3*.

Effective July 1, 2008, the University adopted FASB 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. The University did not elect to account for any assets or liabilities under FAS 159 and therefore FAS 159 did not have any impact on the financial statements.

The FASB issued Staff Position No. FAS 117-I, *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-I). FSP FAS 117-I 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-I was effective for the University's financial statements for the year beginning on July 1, 2008. The adoption of FSP FAS 117-I did not have an impact on the financial statements.

Effective July 1, 2007, the University adopted FASB Interpretation No. 48, *Accounting for Uncertainty 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. Tax positions for the open tax years as of June 30, 2009 were reviewed, and it was determined that no provision for uncertain tax positions is required.

As of June 30, 2009, the University adopted the provisions of FAS 165, *Subsequent Events* (FAS 165). FAS 165 provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before the University financial statements are issued or are available to be issued. FAS 165 requires the University to disclose the date through which subsequent events were evaluated as well as the rationale for why that date was selected. The University has evaluated subsequent events through October 4, 2009, the date of the Report of Independent

Auditors. FAS 165 requires additional disclosures only, and therefore did not have an impact on the University's financial statements.

The FASB issued Staff Position No. FAS 157-g, *Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies* (FSP FAS 157-g). FSP FAS 157-g clarifies that for investments in entities that permit the investor to redeem the investment directly with (or receive distributions from) the investee at net asset value per share at times allowable under the terms of the investee's governing documents, net asset value per share is the most relevant estimate of fair value available that would not require undue cost and effort for the reporting entity. A reporting entity is permitted to estimate the fair value of an investment if the net asset value per share of the investment (or its equivalent) is determined in accordance with the Investment Companies Guide as of the reporting entity's measurement date. FSP FAS 157-g will be effective for the University's financial statements issued for the year beginning on July 1, 2009. Management is currently evaluating the impact the adoption of FAS 157-g will have on the financial statements.

The FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161) which changes the disclosure requirements for derivative instruments and hedging activities. FAS 161 requires that (1) objectives for using derivative instruments be disclosed in terms of underlying risks and accounting designation, (2) the fair values of derivative instruments and their gains and losses be disclosed in tabular format, and (3) information be disclosed about credit-risk contingent features of derivative contracts. FAS 161 will be effective for the University's financial statements issued for the year beginning on July 1, 2009. Management is currently evaluating the impact the adoption of FAS 161 will have on the financial statements.

### 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 and consideration of any additional factors deemed pertinent to the valuations. 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 and special situations funds, 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.

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 employs a unit method of accounting for its pooled general investment assets.

Other investments are managed separately from the GIA. These investments consist primarily of fixed income securities (principally government securities and certificates of deposit held for the University's working capital needs) and publicly traded securities associated with split interest agreements. These securities are measured at fair value on a recurring basis at quoted market prices.

The University's investments as of June 30, 2009 and 2008 are summarized in the following table (in thousands of dollars):

	2009	2008
Investment portfolio, at fair value:		
Pooled general investment assets <sup>1</sup>	\$ 33,539,878	\$ 49,998,480
Other investments <sup>2</sup>	1,219,981	1,086,414
Total investment portfolio, at fair value	<u>34,759,859</u>	<u>51,084,894</u>
Fair value of securities pledged to counterparties	3,067,027	6,398,168
Securities lending and other liabilities associated with the investment portfolio <sup>3</sup>	(6,346,554)	(13,678,751)
<b>TOTAL INVESTMENTS<sup>4</sup></b>	<b>\$ 31,480,332</b>	<b>\$ 43,804,311</b>

Investments as of June 30, 2009 and 2008 comprised the following (in thousands of dollars):

	2009	2008
Pooled general investment net assets:		
General Operating Account	\$ 4,625,249	\$ 5,493,884
Endowment	25,368,780	36,193,970
Split interest agreements	706,644	1,065,564
Other internally designated funds	237,806	294,838
Total pooled general investment net assets	<u>30,938,479</u>	<u>43,048,256</u>
Other investments <sup>2</sup>	1,219,981	1,086,414
Fair value of interest rate exchange agreements	(678,128)	(330,359)
<b>TOTAL INVESTMENTS<sup>4</sup></b>	<b>\$ 31,480,332</b>	<b>\$ 43,804,311</b>

<sup>1</sup> Excludes fair value of securities pledged to counterparties.

<sup>2</sup> Includes split interest agreement assets of \$412,098 and \$505,157 as of June 30, 2009 and 2008, respectively.

<sup>3</sup> Includes fair value of interest rate exchange agreements of \$(678,128) and \$(330,359) as of June 30, 2009 and 2008, respectively.

<sup>4</sup> Investment holdings include cash and cash equivalents that consist principally of funds that have maturities of 90 days or less. Cash and cash equivalents classified as investments were \$4,158,947 and \$1,846,492 at June 30, 2009 and 2008, respectively.

A summary of the University's total return on investments for fiscal 2009 and 2008 is presented below (in thousands of dollars):

	2009	2008
Return on pooled general investments:		
Realized and unrealized gains/(losses), net	\$ (11,838,870)	\$ 3,180,799
Investment income	128,602	297,690
Total return on pooled general investments*	<u>(11,710,268)</u>	<u>3,478,489</u>
Return on other investments:		
Realized and unrealized losses, net	(139,670)	(10,267)
Investment income	120,863	42,310
Total return on other investments	<u>(18,807)</u>	<u>32,043</u>
Realized and unrealized losses on interest rate exchange agreements, net	(879,178)	(332,720)
<b>TOTAL RETURN ON INVESTMENTS</b>	<b>\$ (12,608,253)</b>	<b>\$ 3,177,812</b>

\* Net of all fees and expenses.

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 mispricing in specific financial instruments without changing the fundamental risk profile of the core investment account. 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 below.

The pooled general investment assets and liabilities as of June 30, 2009 and 2008 are summarized as follows (in thousands of dollars):

	2009	2008
<b>POOLED GENERAL INVESTMENT ASSETS:</b>		
Domestic common and convertible equity	\$ 2,984,608	\$ 5,387,605
Foreign common and convertible equity	1,314,426	2,625,784
Domestic fixed income	1,908,280	4,552,457
Foreign fixed income	1,429,341	1,582,035
Emerging market equity and debt	2,704,521	4,161,743
High-yield	1,705,432	2,064,218
Absolute return and special situations funds	5,146,719	7,943,422
Private equities	5,482,466	7,296,369
Real assets <sup>1</sup>	5,648,022	8,029,084
Inflation-indexed bonds	1,633,303	3,155,115
Derivatives <sup>2</sup>	1,516,773	1,690,913
Total investment assets <sup>3</sup>	31,473,891	48,488,745
Collateral advanced under security borrowing agreements <sup>4</sup>	774,289	2,969,522
Cash and short-term investments	3,648,580	1,476,434
Other assets <sup>5</sup>	710,145	3,461,947
<b>POOLED GENERAL INVESTMENT ASSETS</b>	<b>36,606,905</b>	<b>56,396,648</b>
<b>POOLED GENERAL INVESTMENT LIABILITIES:</b>		
Equity and convertible securities	92,449	794,442
Fixed income	365,101	2,435,950
Derivatives <sup>2</sup>	1,171,683	1,115,265
Total investment liabilities	1,629,233	4,345,657
Cash collateral held under security lending agreements	1,763,307	5,796,982
Other liabilities <sup>6</sup>	2,275,886	3,205,753
<b>POOLED GENERAL INVESTMENT LIABILITIES</b>	<b>5,668,426</b>	<b>13,348,392</b>
<b>POOLED GENERAL INVESTMENT NET ASSETS<sup>7</sup></b>	<b>\$ 30,938,479</b>	<b>\$ 43,048,256</b>

<sup>1</sup> Real assets include investments in commodities and real estate.

<sup>2</sup> Includes 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.

<sup>3</sup> Securities pledged to counterparties where the counterparty has the right to sell or repledge the securities were \$3,067,027 and \$6,398,168 as of June 30, 2009 and 2008, respectively.

<sup>4</sup> The collateral advanced under security borrowing agreements is in the form of cash.

<sup>5</sup> As of June 30, 2009, other assets consisted primarily of accounts receivable for the sale of securities of \$516,307, and assets consolidated under EITF 04-5 of \$191,772. As of June 30, 2008, other assets consisted primarily of accounts receivable for the sale of securities of \$2,899,912, and assets consolidated under EITF 04-5 of \$410,806.

<sup>6</sup> As of June 30, 2009, other liabilities consisted primarily of accounts payable for undistributed income and the purchase of securities of \$1,209,336, and other liabilities consolidated under EITF 04-5 of \$1,002,058. As of June 30, 2008, other liabilities consisted primarily of accounts payable for undistributed income and the purchase of securities of \$1,839,248, and other liabilities consolidated under EITF 04-5 of \$1,300,806.

<sup>7</sup> The cost of the total pooled general investment net assets was \$31,435,906 and \$38,594,686 as of June 30, 2009 and 2008, respectively.

The asset allocation of the University's investment 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 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 \$169.8 million and \$910.7 million as of June 30, 2009 and 2008, respectively. The fair value of collateral accepted by the University was \$1,824.7 million and \$3,927.6 million as of June 30, 2009 and 2008, respectively. The portion of this collateral that was sold or repledged was \$327.3 million and \$1,112.0 million as of June 30, 2009 and 2008, respectively.

The University consolidates assets and liabilities held in partnerships or entities controlled by HMC in accordance with EITF 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*. The consolidation of these entities increased the pooled general investment assets and liabilities shown in the table on page 25 by equal amounts. Real asset investments increased by \$810.3 million and \$890.0 million as of June 30, 2009 and 2008, respectively. Other assets, consisting of cash, receivables, and fixed assets, increased by \$191.8 million and \$410.8 million as of June 30, 2009 and 2008. Other liabilities, consisting of accruals, payables, debt, and minority interests, increased by \$1,002.1 million and \$1,300.8 million as of June 30, 2009 and 2008, respectively.

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 \$8,773.8 million through fiscal 2019.

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, 2009), and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 2009 (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	\$ 397,647			\$ 4,179	\$ 40,830
Equity options	(1,004)		\$ 1,007	1,104	
Equity exchange agreements	994,221	\$ (17,039)	97,334	(19,746)	18,159
Total equity instruments	1,390,864	(17,039)	98,341	(14,463)	58,989
Fixed income instruments:					
Fixed income futures	617,562	(607,523)	2,054	(2,883)	2,748
Fixed income options	2,867,387	(2,694,200)	(9,580)	(49,367)	41
Interest rate exchange agreements	17,438,313	(18,438,358)	(23,585)	(75,677)	17,330
Interest rate caps and floors	1,737,224	(1,322,363)	56,911	123,353	39,660
Total fixed income instruments	22,660,486	(23,062,444)	25,800	(4,574)	59,779
Commodity exchange agreements	809,620		1,835	367	
Currency instruments:					
Currency forwards	1,308,279	(1,311,012)	(2,733)	12,046	16
Currency options	43,353	(36,337)	14,532	7,031	5,329
Currency exchange agreements	783,974	(645,030)	87	404	561
Total currency instruments	2,135,606	(1,992,379)	11,886	19,481	5,906
Credit instruments	1,290,058	(8,420,979)	206,549	677,786	10,718
<b>TOTAL</b>	<b>\$ 28,286,634</b>	<b>\$ (33,492,841)</b>	<b>\$ 344,411</b>	<b>\$ 678,597</b>	<b>\$ 135,392</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 relating to financial instruments with off-balance sheet risk where gains exceed collateral held by the University or losses are less than the collateral posted 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 quar-

ters 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 relating to financial instruments with off-balance sheet risk where gains exceed collateral held by the University or losses are less than the collateral posted by the University.

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 University enters into credit derivatives to simulate long and short bond exposure that is either unavailable or considered to be less attractively priced in the bond market, or to hedge exposure obtained in the bond market. The University also uses these derivatives to reduce risk where it has exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default. The reference obligation of the derivative can be a single issuer, a "basket" of issuers, or an index.

In instances where the University has purchased credit protection on an underlying reference obligation, the University is obligated to pay the seller of the credit protection a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to the underlying reference obligation. The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. The amount paid for purchased protection is typically a small percentage of the notional amount. In instances where the University has sold credit protection on an underlying reference obligation, the University receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, and in some instances up to ten years. In the

case where the University sold credit protection, if a credit event occurs, the University may cash settle the contract or pay the purchaser of credit protection the full notional value of the contract in exchange for the reference obligation.

As of June 30, 2009, the University's purchased and written credit derivatives had gross notional amounts of \$9.8 billion and \$1.4 billion, respectively, for total net purchased protection of \$8.4 billion in notional value. The notional amounts of these credit derivatives are not recorded in the *Balance Sheets*.

The table below summarizes certain information regarding credit protection purchased and sold as of June 30, 2009 (in thousands of dollars):

Credit rating on underlying	Purchased protection		Written protection notional amount					
	Purchased notional amount*	Purchased fair value	Years to maturity		Total written credit protection	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
			< 5 years	5-10 years				
A- to AAA	\$ 2,350,000	\$ 331,276	\$ 108,500	\$ 118,000	\$ 226,500	\$ 73,500	\$ 153,000	\$ (11,389)
BBB- to BBB+	6,376,332	211,384	377,832	77,700	455,532	101,232	354,300	(4,018)
Non-investment grade	712,091	297,599	706,993		706,993	202,953	504,040	(436,905)
<b>TOTAL</b>	<b>\$ 9,438,423</b>	<b>\$ 840,259</b>	<b>\$ 1,193,325</b>	<b>\$ 195,700</b>	<b>\$ 1,389,025</b>	<b>\$ 377,685</b>	<b>\$ 1,011,340</b>	<b>\$ (452,312)</b>

\* Amounts shown are net of purchased credit protection that directly offsets written credit protection, as discussed in the note (\*\*) below.

\*\* Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they hedge written credit derivatives with identical underlyings.

Credit ratings on the underlying, together with the period of expiration, are indicators of payment/performance risk. For example, the seller of credit protection is least likely to pay or otherwise be required to perform where the credit ratings are

AAA and the period of expiration is "< 5 years". The likelihood of payment or performance is generally greater as the credit ratings fall and period of expiration increases.

## 4. FAIR VALUE OF INVESTMENT ASSETS AND LIABILITIES

As discussed in *Note 2*, in 2009, the University adopted FAS 157 and its applicable amendments. FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FAS 157 are described below:

**LEVEL 1** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

**LEVEL 2** Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

**LEVEL 3** Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement as of June 30, 2009 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
<b>INVESTMENT ASSETS:</b>				
Cash and short-term investments	\$ 4,158,947			\$ 4,158,947
Domestic common and convertible equity	88,495	\$ 7,243	\$ 3,030,537	3,126,275
Foreign common and convertible equity	208,698		1,162,592	1,371,290
Domestic fixed income	326,133	1,602,265	88,837	2,017,235
Foreign fixed income	13,645	1,429,308		1,442,953
Emerging market equity and debt	1,631,308	3,996	1,069,217	2,704,521
High-yield	15,866	536,663	1,167,909	1,720,438
Absolute return and special situations funds			5,146,719	5,146,719
Private equities	4,283		5,587,397	5,591,680
Real assets	44		5,670,179	5,670,223
Inflation-indexed bonds	19,303	1,593,562	39,741	1,652,606
Derivatives	15,320	1,155,248	345,516	1,516,084
Other investments	30,257	2,156	6,871	39,284
<b>TOTAL INVESTMENT PORTFOLIO ASSETS*</b>	<b>6,512,299</b>	<b>6,330,441</b>	<b>23,315,515</b>	<b>36,158,255</b>
Interests in trusts held by others			276,571	276,571
<b>TOTAL INVESTMENT ASSETS</b>	<b>\$ 6,512,299</b>	<b>\$ 6,330,441</b>	<b>\$ 23,592,086</b>	<b>\$ 36,434,826</b>

\* Includes fair value of securities pledged to counterparties of \$3,067,027 (see Note 3) and excludes investment assets not subject to fair value of \$1,668,631.

<b>INVESTMENT LIABILITIES:</b>				
Equity and convertible securities	\$ 92,335		\$ 114	\$ 92,449
Fixed income		\$ 361,426	3,675	365,101
Derivatives	11,459	1,550,548	287,804	1,849,811
<b>TOTAL INVESTMENT LIABILITIES**</b>	<b>\$ 103,794</b>	<b>\$ 1,911,974</b>	<b>\$ 291,593</b>	<b>\$ 2,307,361</b>

\*\* Includes fair value of interest rate exchange agreements of \$678,128 and excludes investment liabilities not subject to fair value of \$4,039,193.

The University's Level 3 investments consist almost entirely of investments managed by external advisors. The University primarily utilizes fair values provided to it by the external managers, but will make adjustments where deemed necessary as discussed in *Note 3*.

The following is a rollforward of Level 3 investments, as required under FAS 157, for the year ended June 30, 2009 (in thousands of dollars):

	Beginning balance as of July 1, 2008	Realized gains/ (losses)	Change in unrealized gains/ (losses)	Net purchases/ (sales)	Net transfers in/(out)	Ending balance as of June 30, 2009
<b>INVESTMENT ASSETS:</b>						
Domestic common and convertible equity	\$ 3,924,154	\$ (723,379)	\$ 148,931	\$ (326,046)	\$ 6,877	\$ 3,030,537
Foreign common and convertible equity	2,112,383	(45,139)	(595,607)	(69,553)	(239,492)	1,162,592
Domestic fixed income	1,142,974	(16,873)	(367,338)	(483,860)	(186,066)	88,837
Foreign fixed income	8,580				(8,580)	0
Emerging market equity and debt	1,563,606	5,311	(775,272)	(25,305)	300,877	1,069,217
High-yield	1,000,923	(105,628)	(129,643)	(9,042)	411,299	1,167,909
Absolute return and special situations funds	7,943,422	(147,678)	(1,207,587)	(1,923,626)	482,188	5,146,719
Private equities	7,368,053	(439,429)	(1,886,115)	689,844	(144,956)	5,587,397
Real assets	7,964,834	239,743	(2,385,350)	549,543	(698,591)	5,670,179
Inflation-indexed bonds	703,710	144,610	(190,224)	(618,355)		39,741
Derivatives	785,546	825,805	(547,438)	(854,549)	136,152	345,516
Other investments	19,554	3,324	(15,954)	(53)		6,871
<b>TOTAL INVESTMENT ASSETS</b>	<b>34,537,739</b>	<b>(259,333)</b>	<b>(7,951,597)</b>	<b>(3,071,002)</b>	<b>59,708</b>	<b>23,315,515</b>
Interests in trusts held by others	341,990		(52,742)	(12,677)		276,571
<b>TOTAL INVESTMENT ASSETS</b>	<b>\$ 34,879,729</b>	<b>\$ (259,333)</b>	<b>\$ (8,004,339)</b>	<b>\$ (3,083,679)</b>	<b>\$ 59,708</b>	<b>\$ 23,592,086</b>

<b>INVESTMENT LIABILITIES:</b>						
Equity and convertible securities	\$ 113		\$ 1			\$ 114
Fixed income	120	\$ (7,034)	2,277	\$ 6,866	\$ 1,446	3,675
Derivatives	524,199	249,142	(230,858)	(249,041)	(5,638)	287,804
<b>TOTAL INVESTMENT LIABILITIES</b>	<b>\$ 524,432</b>	<b>\$ 242,108</b>	<b>\$ (228,580)</b>	<b>\$ (242,175)</b>	<b>\$ (4,192)</b>	<b>\$ 291,593</b>

## 5. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of \$8.0 million and \$11.8 million as of June 30, 2009 and 2008, respectively, were as follows (in thousands of dollars):

	2009	2008
Federal sponsored support	\$ 46,453	\$ 39,519
Non-federal sponsored support	10,692	9,841
Tuition and fees	13,427	9,751
Publications	30,882	31,274
Gift receipts	9,114	11,159
Executive education	18,056	23,398
Investment income		67,876
Other	50,106	56,541
<b>TOTAL RECEIVABLES, NET</b>	<b>\$ 178,730</b>	<b>\$ 249,359</b>

## 6. NOTES RECEIVABLE

Notes receivable are recorded initially at fair value and then amortized using the effective interest method. Notes receivable, net of reserves for doubtful accounts of \$7.9 million and \$7.6 million as of June 30, 2009 and 2008, respectively, were as follows (in thousands of dollars):

	2009	2008
Student loans:		
Government revolving	\$ 78,957	\$ 72,315
Institutional	76,211	75,703
Federally guaranteed	1,954	2,423
Total student loans	157,122	150,441
Faculty and staff loans	171,284	156,580
Other	29,039	29,064
<b>TOTAL NOTES RECEIVABLE, NET</b>	<b>\$ 357,445</b>	<b>\$ 336,085</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 \$69.5 million and \$58.9 million as of June 30, 2009 and 2008, 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 mortgage 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.

## 7. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are initially recorded at fair value (pledge net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. Discounts of \$78.9 million and \$64.5 million for the years ended June 30, 2009 and 2008, respectively, were calculated using discount factors based on the appropriate U.S. Treasury Note rates for pledges received prior to the adoption of FAS 157, and using the University's taxable unsecured borrowing rate for pledges received in fiscal 2009.

Pledges receivable included in the financial statements as of June 30, 2009 and 2008 are expected to be realized as follows (in thousands of dollars):

	2009	2008
Within one year	\$ 138,788	\$ 103,484
Between one and five years	555,148	413,936
More than five years	233,428	229,019
Less: discount and allowance for uncollectible pledges	(142,074)	(119,960)
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 785,290</b>	<b>\$ 626,479</b>

Pledges receivable as of June 30, 2009 and 2008 have been designated for the following purposes (in thousands of dollars):

	2009	2008
General Operating Account balances:		
Gifts for current use	\$ 284,385	\$ 150,768
Non-federal sponsored grants	111,484	88,388
Loan funds and facilities	16,087	16,914
Total General Operating Account balances	411,956	256,070
Endowment	373,334	370,409
<b>TOTAL PLEDGES RECEIVABLE, NET</b>	<b>\$ 785,290</b>	<b>\$ 626,479</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 \$45.6 million and \$24.6 million as of June 30, 2009 and 2008, respectively.

## 8. 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, 2009 and 2008 are summarized as follows (in thousands of dollars):

	2009	2008	Estimated useful life (in years)
Research facilities	\$ 1,876,123	\$ 1,812,063	*
Classroom and office facilities	1,257,030	1,107,330	35
Housing facilities	1,072,255	1,109,710	35
Other facilities	528,402	372,878	35
Service facilities	461,512	411,146	35
Libraries	418,252	384,993	35
Museums and assembly facilities	291,211	261,449	35
Athletic facilities	163,258	145,783	35
Land	609,872	597,910	N/A
Construction in progress	617,502	460,256	N/A
Equipment	730,980	634,021	**
Total fixed assets, at cost	8,026,397	7,297,539	
Less: accumulated depreciation	(2,632,933)	(2,346,210)	
<b>TOTAL FIXED ASSETS, NET</b>	<b>\$ 5,393,464</b>	<b>\$ 4,951,329</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 as to use, structural modifications, and ownership transfer. Included in the fixed asset balances are restricted facilities with a net book value of \$188.1 million and \$171.2 million as of June 30, 2009 and 2008, respectively.

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

Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

The University has asset retirement obligations of \$42.2 million and \$42.6 million, which is included in "Deposits and other liabilities" in the *Balance Sheets* as of June 30, 2009 and 2008, respectively.

## 9. 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 and state law. 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 historic dollar value. At June 30, 2009, unrestricted net assets were reduced by \$123.0 million for such losses. No reduction in unrestricted net assets was necessary at June 30, 2008. Although funds functioning as endowment are not subject to 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 include the present values of expected future cash flows from outside trusts and the fair value of the underlying assets of perpetual trusts, are recognized as assets and increases in net assets when the required trust documentation is provided to the University. The fair values of these trusts are provided by the external trustees and are adjusted annually by the University. These are included as Level 3 investments in the fair value hierarchy table in Note 4.

The endowment consisted of the following as of June 30, 2009 and 2008 (in thousands of dollars):

	2009			Total	2008
	Unrestricted	Temporarily restricted	Permanently restricted		Total
Endowment funds		\$ 14,798,375	\$ 4,166,212	\$ 18,964,587	\$ 26,931,408
Funds functioning as endowment	\$ 4,250,770	2,208,124		6,458,894	9,328,677
Pledge balances		54,534	318,800	373,334	370,409
Interests in trusts held by others		10,892	227,682	238,574	296,199
<b>TOTAL ENDOWMENT</b>	<b>\$ 4,250,770</b>	<b>\$ 17,071,925</b>	<b>\$ 4,712,694</b>	<b>\$ 26,035,389</b>	<b>\$ 36,926,693</b>

The University's endowment distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and generate a predictable stream of available income. Each fall, the Corporation approves the endowment distribution 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 2009, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 4.1% of the fair value of the endowment invested in the GIA as of the beginning of the fiscal year. The total endowment distribution made available for operations was \$1.4 billion and \$1.2 billion in fiscal 2009 and 2008, respectively.

Each year the Corporation also approves certain decapitalizations from the endowment to support strategic, mission-critical activities or objectives that are typically one-time or time-limited. These decapitalizations totaled \$239.6 million and \$454.5 million in fiscal 2009 and 2008, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 4.6% and 4.8% in fiscal 2009 and 2008, respectively.

## 10. 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 (SIA) assets are invested primarily in the GIA and publicly traded securities, a small segment is managed by an external advisor, and all are recorded at fair value as discussed in Note 3. The publicly traded securities are included as Level 1 and externally managed investments are included as Level 3 investments in the fair value hierarchy table in Note 4. Associated liabilities are

recorded at the present value of estimated future payments due to beneficiaries and other institutions. These liabilities were calculated using discount factors based on the appropriate U.S. Treasury Note rates for gifts received prior to the adoption of FAS 157, and using the University's taxable unsecured borrowing rate for gifts received in fiscal 2009.

The changes in split interest agreement net assets for fiscal 2009 and 2008 were as follows (in thousands of dollars):

	2009			2008
	Temporarily restricted	Permanently restricted	Total	Total
Investment return:				
Investment income	\$ 5,096	\$ 11,508	\$ 16,604	\$ 25,436
Change in realized and unrealized appreciation, net	(115,919)	(261,755)	(377,674)	38,509
Total investment return	(110,823)	(250,247)	(361,070)	63,945
Gifts for capital (Note 16)*	7,364	8,638	16,002	28,489
Payments to annuitants	(19,753)	(44,605)	(64,358)	(70,855)
Transfers to endowment	(36,598)	(10,512)	(47,110)	(23,843)
Transfers between SIA and the GOA	(34,148)	(2,121)	(36,269)	(14,071)
Change in liabilities and other adjustments	69,312	182,786	252,098	37,088
<b>NET CHANGE DURING THE YEAR</b>	<b>(124,646)</b>	<b>(116,061)</b>	<b>(240,707)</b>	<b>20,753</b>
Total split interest agreement net assets, beginning of year	188,537	473,925	662,462	641,709
<b>TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year</b>	<b>\$ 63,891</b>	<b>\$ 357,864</b>	<b>\$ 421,755</b>	<b>\$ 662,462</b>

\* Shown at net present value. The undiscounted value of these gifts was \$32,494 and \$65,771 for the years ended June 30, 2009 and 2008, respectively.

Split interest agreement net assets as of June 30, 2009 and 2008 consisted of the following (in thousands of dollars):

	2009	2008
Split interest agreement investments (Note 3):		
Charitable remainder trusts	\$ 701,042	\$ 948,446
Charitable lead trusts	89,758	121,400
Charitable gift annuities	239,904	399,295
Pooled income funds	88,038	101,580
Total split interest agreement investments	1,118,742	1,570,721
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	(603,522)	(794,983)
Amounts due to other institutions	(93,465)	(113,276)
Total liabilities due under split interest agreements	(696,987)	(908,259)
<b>TOTAL SPLIT INTEREST AGREEMENT NET ASSETS</b>	<b>\$ 421,755</b>	<b>\$ 662,462</b>

## 11. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2009 and 2008 were as follows (in thousands of dollars):

	Fiscal year of issue	Remaining years to maturity	One-year effective interest rate	Outstanding principal	
				2009	2008
<b>Tax-exempt bonds and notes payable:</b>					
Variable-rate bonds and notes payable:					
Series L - weekly	1990	15	3.7%	\$ 71,140	\$ 71,140
Series R - daily	2000–2006	40	0.8	131,200	131,200
Series Y - weekly	2000	26	5.2	117,905	117,905
Series BB - weekly	2001	25	1.0	196,700	196,700
Series HH - weekly	2004	24	5.9	92,235	92,235
Series GG1 - weekly	2005	N/A	3.3		205,935
Series 2006B1 - daily	2007	N/A	2.9		112,900
Series 2006B2 - weekly	2007	N/A	2.3		112,900
Commercial paper	2009	Various*	1.5	449,259	533,109
<b>Total variable-rate bonds and notes payable</b>			2.3	<b>1,058,439</b>	<b>1,574,024</b>
Fixed-rate bonds:					
Series N	1992	11	6.3	78,908**	79,078
Series Z	2001	7	5.2	67,788**	77,388
Series AA	2001	N/A	5.5		5,154
Series DD	2002	26	5.0	135,005**	134,982
Series FF	2003	28	5.1	274,973**	275,990
Series 2005A	2005	27	5.0	93,539**	93,713
Series 2005B	2006	23	5.0	104,888**	105,047
Series 2005C	2006	26	5.0	129,930**	129,998
Series 2008B	2008	29	5.0	216,622**	216,886
Series 2009A	2009	27	5.4	986,908**	
<b>Total fixed-rate bonds</b>			5.2	<b>2,088,561</b>	<b>1,118,236</b>
<b>Total tax-exempt bonds and notes payable</b>			<b>3.9</b>	<b>3,147,000</b>	<b>2,692,260</b>
<b>Taxable bonds and notes payable:</b>					
Series GG2 - weekly	2005	4	5.0	38,935	45,745
Series 2006A	2006	28	6.3	401,395**	401,372
Series 2008A	2008	29	4.9	387,670**	387,606
Series 2008C	2008	9	5.3	125,205	125,205
Series 2008D	2009	30	5.8	1,495,275**	
Commercial paper	2009	Various*	5.2	296,977	347,652
<b>Total taxable bonds and notes payable</b>			<b>5.6</b>	<b>2,745,457</b>	<b>1,307,580</b>
Other notes payable	Various	Various	Various	87,994	90,072
<b>TOTAL BONDS AND NOTES PAYABLE</b>			<b>4.7%</b>	<b>\$ 5,980,451</b>	<b>\$ 4,089,912</b>

\* All commercial paper will mature in fiscal 2010.

\*\* Series N, Z, DD, FF, 2006A, 2008A, 2008D and 2009A principal are net of \$1.1 million, \$0.2 million, \$0.9 million, \$1.2 million, \$0.6 million, \$0.3 million, \$4.7 million and \$13.1 million of discounts, respectively. Series 2005A, 2005B, 2005C and 2008B principal include premiums of \$4.4 million, \$4.3 million, \$4.0 million and \$7.8 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 \$204.4 million and \$146.1 million for fiscal 2009 and 2008, respectively. Excluding maturity of commercial paper and unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2010	\$ 17,835
2011	16,553
2012	17,353
2013	188,258
2014	519,000
Thereafter	4,476,725
<b>TOTAL PRINCIPAL PAYMENTS</b>	<b>\$ 5,235,724</b>

In fiscal 2009, the University issued \$1.5 billion of taxable fixed-rate Series 2008D bonds. The series was comprised of a \$500.0 million issue that will mature in 2014, a \$500.0 million issue that will mature in 2019, and a \$500.0 million issue that will mature in 2039. Proceeds from Series 2008D were used for general University purposes, including the refunding of taxable commercial paper.

In fiscal 2009, the University issued \$1.0 billion of tax-exempt fixed-rate Series 2009A bonds. The series was comprised of a \$700 million issue that will mature in 2036, and various other issues totaling \$300 million that will mature beginning in 2014 and ending in 2023. Proceeds from Series 2009A were used to fund the full redemption of Series GGI, Series 2006B1 and Series 2006B2 (including the termination of any interest rate exchange agreements associated with those Series), and to finance capital projects and acquisitions initially funded by the University's commercial paper programs.

In connection with the issuances of Series 2008D and 2009A, the University's AAA/Aaa credit ratings were affirmed with Standard & Poor's and Moody's Investors Service, respectively.

In fiscal 2009, the University increased the capacity of its taxable commercial paper program to \$2.0 billion from \$1.0 billion.

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, and \$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. Finally, in fiscal 2008, the University reauthorized its tax-exempt commercial paper program.

Based on quoted market prices, the estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was \$6,161.3 million and \$4,022.3 million as of June 30, 2009 and 2008, respectively.

The University has \$648.1 million of variable-rate bonds outstanding (excluding commercial paper) with either a daily or weekly interest rate reset, as noted in the bonds and notes payable table on page 35. In the event 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 current obligation to purchase the bonds tendered.

In fiscal 2009, the University renewed a \$2.0 billion unsecured, 364-day revolving credit facility with a syndicate of banks which matured in August 2009. In August 2009, the University entered into a \$1.8 billion unsecured, 364-day revolving credit facility with a syndicate of banks maturing in August 2010.

### Interest rate exchange agreements

The University has entered into various interest rate exchange agreements in order to manage the interest cost and risk associated with its outstanding debt and to hedge issuance of future debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. Each of these exchanges is collateralized, as described in *Note 3*, and thereby carries liquidity risk to the extent the relevant agreements have negative mark-to-market valuations (pursuant to methodologies described below). The interest rates in the table on page 35 reflect any applicable exchange agreements.

In fiscal 2009, the University terminated interest rate exchange agreements with a notional value of \$1,138.0 million, for which it realized a loss of \$497.6 million. A portion of this loss was offset by \$85.9 million in gains on the sale of U.S. Treasury bonds which had been purchased to hedge a portion of the liquidity risk associated with the interest rate exchange agreements.

Also in fiscal 2009, the University entered into additional interest rate exchange agreements with a notional value of \$764.0 million, under which the University receives a fixed rate and pays a variable rate. These new interest rate exchange agreements, or 'offsetting' agreements, were intended to reduce the risk of further losses in value (with associated collateral posting requirements) within the portfolio of interest rate 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 \$3,141.2 million and \$(678.1) million, respectively, as of June 30, 2009 and \$3,524.7 million and \$(330.4) million, respectively, as of June 30, 2008. The table on page 37 is a rollforward of the notional amount of the University's interest rate exchange agreements from July 1, 2008 to June 30, 2009. The fair value of these agreements is included in the "Securities lending and other liabilities associated with the investment portfolio" line in the *Balance Sheets*.

The loss realized from the monthly settling of interest rate exchange agreements was \$33.9 million and \$15.6 million for fiscal 2009 and 2008, respectively. All unrealized

and realized gains and losses from interest rate exchange agreements are included in the "Change in appreciation on GOA investments, net" line in the *Statements of Changes in Net Assets with General Operating Account Detail*.

## NOTIONAL AMOUNT OF INTEREST RATE EXCHANGE AGREEMENTS

*In thousands of dollars*

Beginning balance, July 1, 2008	\$ 3,524,705
Interest rate exchange agreements terminated	(1,138,035)
Amortizations	(9,460)
Offsetting interest rate exchange agreements	764,000
<b>ENDING BALANCE, JUNE 30, 2009</b>	<b>\$ 3,141,210</b>

## 12. EMPLOYEE BENEFITS

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

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

### Pension benefits

All eligible faculty members, staff and hourly employees are covered by retirement programs that include 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 value of the trust's assets were \$680.7 million and \$879.9 million as of June 30, 2009

and 2008, respectively. In addition, the University internally designated and invested \$29.0 million and \$40.0 million as of June 30, 2009 and 2008, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of \$101.6 million and \$94.7 million for fiscal 2009 and 2008, 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, 2009, the University had internally designated and invested \$204.1 million to fund the postretirement health benefit accrued liability of \$697.5 million. As of June 30, 2008, the University had internally designated and invested \$248.3 million to fund an accrued liability of \$607.4 million.

The following table provides a reconciliation of the benefit obligation for the University for fiscal 2009 and 2008 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2009	2008	2009	2008
Benefit obligation, beginning of year	\$ 586,309	\$ 593,682	\$ 607,427	\$ 545,698
Service cost	11,757	12,121	29,439	25,564
Interest cost	37,849	36,868	40,815	35,164
Plan participants' contributions			1,955	1,927
Federal subsidy on benefits paid			1,224	1,528
Plan amendments		11		
Gross benefits paid	(30,187)	(38,529)	(19,657)	(18,981)
Actuarial (gain)/loss	74,708	(17,844)	31,410	16,527
Special termination benefits*	42,945		4,870	
<b>BENEFIT OBLIGATION, end of year</b>	<b>\$ 723,381</b>	<b>\$ 586,309</b>	<b>\$ 697,483</b>	<b>\$ 607,427</b>

\* Represents costs associated with a voluntary early retirement program offered to plan participants during fiscal 2009.

Accumulated benefit obligation	\$ 618,937	\$ 497,387	N/A	N/A
Weighted-average assumptions used to determine benefit obligation at end of year:				
Discount rate	6.25%	6.50%	6.25%	6.50%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Health care cost trend rate:				
– Initial rate	N/A	N/A	8.00%	8.50%
– Ultimate rate	N/A	N/A	5.00%	5.00%
– Years to ultimate rate	N/A	N/A	6	7
Effect of one-percentage-point change in assumed health care cost trend rate on postretirement benefit obligation:				
– Increase	N/A	N/A	\$ 131,235	\$ 109,066
– Decrease	N/A	N/A	\$ (103,512)	\$ (86,415)

The following table provides a reconciliation of the fair value of plan assets for the University for fiscal 2009 and 2008 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2009	2008	2009	2008
Fair value of plan assets, beginning of year	\$ 879,869	\$ 896,964	\$ 0	\$ 0
Actual return on plan assets	(168,934)	21,434		
Gross benefits paid	(30,187)	(38,529)		
<b>FAIR VALUE OF PLAN ASSETS, end of year</b>	<b>\$ 680,748</b>	<b>\$ 879,869</b>	<b>\$ 0</b>	<b>\$ 0</b>

The actual asset allocation of the investment portfolio for the pension plan for fiscal 2009 and 2008, along with target allocations for fiscal 2010, are as follows:

	2010 Target	2009 Actual	2008 Actual
Equity securities	44.0%	44.5%	48.7%
Fixed income securities	17.0	14.4	19.6
Real estate	8.0	6.4	6.8
Other	31.0	34.7	24.9
<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 2009 and 2008 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2009	2008	2009	2008
Funded status, end of year:				
Fair value of plan assets	\$ 680,748	\$ 879,869		
Benefit obligations	(723,381)	(586,309)	\$ (697,483)	\$ (607,427)
<b>(UNFUNDED)/FUNDED STATUS, end of year</b>	<b>(42,633)</b>	<b>293,560</b>	<b>(697,483)</b>	<b>(607,427)</b>

Amounts recognized in the *Balance Sheets*:

Net retirement assets		\$ 293,560		
Accrued retirement obligations	\$ (42,633)		\$ (697,483)	\$ (607,427)
<b>TOTAL AMOUNTS RECOGNIZED IN THE BALANCE SHEETS</b>	<b>\$ (42,633)</b>	<b>\$ 293,560</b>	<b>\$ (697,483)</b>	<b>\$ (607,427)</b>

Amounts recognized in unrestricted net assets:

Net actuarial (gain)/loss	\$ 5,235	\$ (304,565)	\$ 28,674	\$ (2,988)
Prior service (credit)/cost	(10,455)	(14,829)	3,563	4,974
Transition (asset)/obligation			24,249	30,311
<b>TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS</b>	<b>\$ (5,220)</b>	<b>\$ (319,394)</b>	<b>\$ 56,486</b>	<b>\$ 32,297</b>

Amounts recognized in changes in unrestricted net assets:

New prior service (credit)/cost		\$ 11		
New net actuarial (gain)/loss	\$ 299,697	11,728	\$ 31,410	\$ 11,253
Amortization of:				
transition asset/(obligation)			(6,062)	(6,062)
prior service credit/(cost)	4,374	4,375	(1,411)	(1,796)
actuarial gain/(loss)	10,103	4,456	252	280
<b>TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS</b>	<b>\$ 314,174</b>	<b>\$ 20,570</b>	<b>\$ 24,189</b>	<b>\$ 3,675</b>

The fiscal 2009 total amount recognized in changes in unrestricted net assets of \$338.4 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 2010 to funded pension or other benefit plans under the Pension Protection Act of 2006, because for ERISA purposes the plan actually remains overfunded as of January 1, 2009.

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	
2010	\$ 71,717	\$ 24,591	\$ 1,094
2011	49,126	27,579	1,307
2012	49,785	29,948	1,493
2013	50,660	32,236	1,710
2014	51,533	34,624	1,935
2015–2019	265,535	211,558	13,794

The following table summarizes the components of the net periodic benefit (income)/cost for the University for fiscal 2009 and 2008 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2009	2008	2009	2008
Service cost	\$ 11,757	\$ 12,121	\$ 29,439	\$ 25,564
Interest cost	37,849	36,868	40,815	35,164
Expected return on plan assets	(59,057)	(54,327)	(16,733)	(12,886)
Amortization of the:				
Actuarial (gain)/loss	(10,103)	(4,456)	(252)	(280)
Prior service (credit)/cost	(4,374)	(4,375)	1,411	1,796
Transition (asset)/obligation			6,062	6,062
Special termination benefits	42,945		4,870	
Net periodic benefit (income)/cost	19,017	(14,169)	65,612	55,420
Adjustment for return on invested reserves	3,001	3,321	16,733	2,634
<b>TOTAL NET PERIODIC BENEFIT (INCOME)/COST</b>	<b>\$ 22,018</b>	<b>\$ (10,848)</b>	<b>\$ 82,345</b>	<b>\$ 58,054</b>

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

Discount rate	6.50%	6.25%	6.50%	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	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 aggregate service and interest cost:

– Increase	N/A	N/A	\$ 16,188	\$ 13,778
– Decrease	N/A	N/A	\$ (12,379)	\$ (10,576)

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 (income)/cost in fiscal 2010 are as follows (in thousands of dollars):

	Pension benefits	Postretirement health benefits
Actuarial (gain)/loss	\$ (2,792)	\$ 658
Prior service (credit)/cost	(4,694)	1,411
Transition (asset)/obligation		6,062
<b>TOTAL AMOUNTS TO BE AMORTIZED</b>	<b>\$ (7,486)</b>	<b>\$ 8,131</b>

### 13. 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, 2009 and 2008 are summarized as follows (in thousands of dollars):

	2009			Total	2008 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Departmental balances:					
Unexpended endowment income	\$ 63,551	\$ 375,550		\$ 439,101	\$ 565,556
Unexpended gift balances	86,811	273,484		360,295	325,940
Pledge balances		367,967		367,967	236,919
Interests in trusts held by others		31,115		31,115	42,537
Loan funds	23,427		\$ 92,362	115,789	119,396
Funds for construction		10,503		10,503	9,162
Funds invested in fixed assets	1,393,072			1,393,072	1,326,368
Other departmental purposes	458,797			458,797	764,412
Total departmental balances	2,025,658	1,058,619	92,362	3,176,639	3,390,290
University balances*	388,426	118,077		506,503	3,184,762
<b>TOTAL GOA NET ASSET BALANCES</b>	<b>\$ 2,414,084</b>	<b>\$ 1,176,696</b>	<b>\$ 92,362</b>	<b>\$ 3,683,142</b>	<b>\$ 6,575,052</b>

\* Includes interests in trusts held by others of \$6,882 and \$3,254 for the years ended June 30, 2009 and 2008, respectively.

## 14. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2009 and 2008 is summarized as follows (in thousands of dollars):

	2009	2008
Scholarships and other student awards:		
Scholarships applied to student income	\$ 302,369	\$ 252,126
Scholarships and other student awards paid directly to students	122,479	110,532
Total scholarships and other student awards	424,848	362,658
Student employment	65,977	56,784
Student loans	25,481	32,635
Agency financial aid*	12,516	12,609
<b>TOTAL STUDENT FINANCIAL AID</b>	<b>\$ 528,822</b>	<b>\$ 464,686</b>

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

## 15. SPONSORED SUPPORT

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored projects to the University were \$558.7 million and \$535.0 million in fiscal 2009 and 2008, 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.

## 16. 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, 2009 and 2008 are summarized as follows (in thousands of dollars):

	2009	2008
Gifts for current use	\$ 291,231	\$ 236,599
Non-federal sponsored grants	92,798	84,044
Gifts for capital:		
Endowment funds	194,459	336,059
Split interest agreements*	16,002	28,489
Loan funds and facilities	2,649	4,865
Total gifts for capital	213,110	369,413
<b>TOTAL GIFTS</b>	<b>\$ 597,139</b>	<b>\$ 690,056</b>

\* Shown at net present value. The undiscounted value of these gifts was \$32,494 and \$65,771 for the years ended June 30, 2009 and 2008, respectively.

## 17. OTHER INCOME

The major components of other income for the years ended June 30, 2009 and 2008 were as follows (in thousands of dollars):

	2009	2008
Rental and parking	\$ 125,908	\$ 134,141
Publications	75,660	85,150
Royalties from patents, copyrights, and trademarks	82,667	84,514
Services income	52,960	48,345
Sales income	57,249	46,634
Non-student health and clinic fees	25,168	24,370
Other student income	25,845	25,113
Other	60,399	62,620
<b>TOTAL OTHER INCOME</b>	<b>\$ 505,856</b>	<b>\$ 510,887</b>

## 18. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2009 and 2008 were as follows (in thousands of dollars):

	2009	2008
Services purchased	\$ 388,649	\$ 414,138
Subcontract expenses under sponsored projects	139,904	110,019
Travel	69,431	78,413
Publishing	46,861	52,961
Advertising	18,516	16,610
Taxes and fees	25,330	24,312
Interest	56,631	13,326
Postage	20,149	22,976
Insurance	15,009	10,482
Telephone	12,715	12,017
Other	41,737	45,656
<b>TOTAL OTHER EXPENSES</b>	<b>\$ 834,932</b>	<b>\$ 800,910</b>

## 19. FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

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

Operating expenses by functional classification for the years ended June 30, 2009 and 2008 were as follows (in thousands of dollars):

	2009	2008
Instruction	\$ 995,853	\$ 946,944
Research	624,242	570,162
Libraries	239,708	212,334
Academic support	505,169	456,779
Scholarships and other student awards	122,479	110,532
Student services	138,935	125,025
Institutional support	736,917	625,176
Auxiliary services	392,768	417,941
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 3,756,071</b>	<b>\$ 3,464,893</b>

## 20. 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 related to this obligation of \$6.5 million as of June 30, 2009 and 2008, which is recorded in "Accounts payable" in the *Balance Sheets*.

On July 1, 2009, the Broad Institute was established as a separate permanent entity. The University, MIT, and the Broad Foundation have transferred employees, research agreements, and related assets and liabilities to the new entity. Included in the University's balance sheet on June 30, 2009 are investment assets of the Broad Institute of \$52.0 million, which will be written off in fiscal 2010.

### Lease commitments

The University is the lessee of equipment and space under operating (rental) and capital leases. Rent expense related to leases was \$24.4 million and \$39.9 million in fiscal 2009 and 2008, respectively. Future minimum payments under these operating and capital leases are as follows (in thousands of dollars):

	Operating	Capital
2010	\$ 39,683	\$ 6,158
2011	34,808	6,309
2012	29,715	6,420
2013	25,025	6,420
2014	22,409	6,471
Thereafter	166,372	180,997
<b>TOTAL FUTURE MINIMUM PAYMENTS</b>	<b>\$ 318,012</b>	<b>\$ 212,775</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, 2009 totaled approximately \$483.3 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 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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**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 Chair, Vice Chair, 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, the 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 June 30.

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

“Bonds” means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series 2010A, 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 as of 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 its terms.

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

“IRC” means the Internal Revenue Code of 1986, as it may be amended and applied to 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 or a sinking fund installment; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations described in clause (i) or (ii) of the definition thereof bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with this Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

“Project” means the 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

(i) *Existing Part of the Project*: Projects financed and refinanced with the proceeds of the Refunded Commercial Paper, the Series Z Bonds, the Series FF Bonds and the Refunded Taxable Notes, including:

(A) Refunded Commercial Paper: (1) an approximately 13,000 square foot addition to the Hasty Pudding Building, 10-12 Holyoke Street, Cambridge; (2) an approximately 40,000 square foot renovation of building space at 46 Blackstone Street, Cambridge and a boiler replacement and ancillary system upgrade in the Blackstone plant located at the same site (the corner of Memorial Drive and Western Avenue, Cambridge); (3) construction of Harvard affiliate housing for graduate students, 10 Akron Street Housing Development, Cambridge; (4) relocation of up to 75 administrative offices including University Hall, 1414 Massachusetts Avenue, 1033 Massachusetts Avenue, and Two Arrow Street, Cambridge; (5) renovation of approximately 110,840 square feet of space in Malkin Athletic Center, 39 Holyoke Street, Cambridge; (6) 1587 Massachusetts Ave, Cambridge, including Northwest corner site prep and house relocation and utility infrastructure upgrade adding approximately 1,296 square feet; (7) life safety fire system upgrade at 240 Longwood Avenue, Boston; (8) North Precinct Utility Infrastructure improvements in Cambridge; (9) Laboratory for Interface Science and Engineering, an approximately 139,680 square foot building at 15 Oxford Street, Cambridge, and accompanying fit-out; and (10) Life safety fire system upgrades and other renovations at various student residences located in Cambridge;

(B) Series Z Bonds: projects originally financed and refinanced with proceeds of (1) the Authority’s Revenue Bonds, Harvard University Issue, Series B, dated July 1, 1973, (2) the Authority’s Revenue Bonds, Harvard University Issue, Series C, dated July 1, 1975, (3) the Authority’s Revenue Bonds, Harvard University Issue, Series D, dated July 1, 1976, and (4) the Authority’s Revenue Bonds, Harvard University Issue, Series M, dated February 1, 1991.

(C) Series FF Bonds: (1) Construction, furnishing and equipping of (a) a shrub and vine collection garden to be located at the Arnold Arboretum, 1050 Centre Street, Boston; (b) an approximately 6,000 square foot addition to the Faculty Club, 20 Quincy Street, Cambridge; (c) an approximately 145,000 square foot building to be located at 1727 and 1737 Cambridge Street and 34 and 38 Kirkland Street, Cambridge; (d) an approximately 85,000 square foot building to be located on the west side of Oxford Street between Kirkland and Everett Streets, Cambridge; (e) approximately 211,000 square foot and approximately 180,000 square foot laboratory buildings, both located in the North Yard, Cambridge; (f) an approximately 32,000 square foot addition to the Science Center, 1 Oxford Street, Cambridge; (g) an approximately 290,000 square foot parking garage on Oxford Street between Everett, Hammond and Gorham Streets, Cambridge; (h) an approximately 70,000 square foot expansion of the mouse research lab, 16 Divinity Avenue, Cambridge; (i) approximately 6,070 square feet of below-grade space at Gund Hall, 48 Quincy Street, Cambridge; (j) an approximately 90,000 square foot building to be located at 37 Harvard Way, Boston; (k) an approximately 40,000 square foot building to be located at 35 Harvard Way, Boston; (l) an approximately 30,000 square foot addition to Baker Library, 25 Harvard Way, Boston; (m) fit out of approximately 19,000 square feet of space in the building at 201 Brookline Avenue, Boston; (n) an approximately 80,000 square foot building to be located at 188 Longwood Avenue, Boston; (o) renovation of approximately 5,500 square feet of space in the building at One Kendall Square, Cambridge; (p) renovation and addition of approximately 2,900 square feet at 220 Longwood Avenue, Boston; (q) an approximately 26,400 square foot building at 90 Mt. Auburn Street, Cambridge; (r) an approximately 90,000 square foot building at 60 Oxford Street, Cambridge; (s) an approximately 400,000 square foot building to be located at 77 Avenue Louis Pasteur, Boston; (t) an approximately 12,000 square foot addition to an existing building, an approximately 35,241 square foot research

facility and animal clinic and an approximately 14,250 square foot addition to an existing building, each to be located at 1 Pine Hill Drive, Southborough; (u) an approximately 3,512 square foot addition to the building at 1 Francis Avenue, Cambridge; (v) an approximately 233,155 and 240,000 square foot building and underground parking facility, respectively, both to be located at One Western Avenue, Boston; (w) an approximately 8,520 linear foot sewer separation to be located under Harvard Yard, Cambridge; and (x) installation of approximately 1,500 linear feet of steam and condensate piping from One Western Avenue to 39 Harvard Way, Boston; (2) Acquisition of the term balances remaining on two 99-year leasehold interests in a building owned by the Institution and located at 4 Blackfan Circle, Boston, which together comprise approximately 166,000 square feet; and (3) Other renovation, furnishing and equipping and other capital expenditures at (a) the Institution's Business School Campus in Boston; (b) the Institution's Medical School Campus in Boston; (c) the Institution's main campus in Cambridge and Boston; (d) Old Causeway Road, Bedford; (e) 1 Pine Hill Drive, Southborough; (f) the Arnold Arboretum, 1050 Centre Street, Boston; (g) 395 Arsenal Street, Watertown and (h) administrative data systems upgrades throughout the Institution's campuses.

(D) Refunded Taxable Notes: (1) retrofit existing HVAC systems for Larsen Hall at 14 Appian Way, Cambridge; (2) renovation of administrative office and classroom space in Pierce Hall, 25 Oxford Street, Cambridge; (3) relocation of up to 75 administrative offices including University Hall, 1414 Massachusetts Avenue, 1033 Massachusetts Avenue, and Two Arrow Street, Cambridge; (4) construction of Harvard affiliate housing for graduate students, 10 Akron Street Housing Development, Cambridge; (5) an approximately 40,000 square foot renovation of building space at 46 Blackstone Street, Cambridge and a boiler replacement and ancillary system upgrade in the Blackstone plant located at the same site (the corner of Memorial Drive and Western Avenue, Cambridge); and (6) maintenance and tower restoration of the Lowell House 10 Holyoke Place, Cambridge; and

(ii) *New Part of the Project*: (a) an approximately 43,500 square foot building for the Arnold Arboretum for research and administration located at Weld Hill, 1300 Centre Street, Boston, (b) development of the Harvard Law School Northwest Project, at 1585 Massachusetts Ave, Cambridge, including an approximately 283,630 square foot renovation, an approximately 250,360 square foot building, and utility infrastructure upgrade, (c) an approximately 200,000 square foot renovation, reconstruction, and expansion of Harvard University Art Museums at 32 Quincy St, Cambridge, (d) approximately 105,271 square feet of lab and office space in the Sherman Fairchild Biochemistry building at 7 Divinity Avenue, Cambridge, (e) a new approximately 2,344 square foot biocontainment facility to replace existing NERPRC (New England Regional Primate Resource Center) Storage at 1 Pine Hill Drive, Southborough, (f) renovation of buildings, primarily office space, to upgrade sub-standard conditions at 160, 164 Longwood Avenue, Boston, (g) approximately 75,000 square feet of new academic classroom and office space located in Gordon Circle, Allston, (h) environmental remediation for Northwest Corner project located in Cambridge, and (i) life safety fire system upgrades and other renovations at student residences located at 16-22 Everett Street, Cambridge, 45 Flagg Street, Cambridge, 10 Holyoke Place, Cambridge; 56 Plympton Street, Cambridge, 26 Plympton Street, Cambridge, 966 Memorial Drive, Cambridge, and 967 Memorial Drive, Cambridge; 35-39 Oxford Street, Cambridge, 36 Oxford Street, Cambridge, 1651 Massachusetts Avenue, Cambridge, 1533-1544 Massachusetts Avenue, Cambridge, and 22 Harvard Yard, Cambridge.

The word "Project" also refers to the facilities which result or have resulted from the foregoing activities. The scope of the Project may be increased or decreased upon certification by the Project Officer on behalf of the Institution to the Trustee and the Authority describing the change, estimating the resulting increase or decrease in the cost of the Project and stating: that the amendment will not cause the Project to violate any applicable building, zoning, land use, environmental protection, historical, sanitary, safety or educational laws, rules and regulations or applicable grant, reimbursement or insurance requirements or the provisions of the Agreement. The signers of the certificate may rely, as to conclusions of law, on an opinion of counsel furnished to the Authority and referred to in the certificate. The Authority may waive any provision required to be contained in the certificate upon advice of counsel that the waiver does not adversely affect the security for the Bonds. The scope of the Project may be increased only upon receipt by the Trustee of an Opinion of Bond Counsel regarding the increase in scope.

"Project Costs" means the costs of issuing the Bonds and carrying out the Project, including repayment of external loans and internal advances for the same to the extent permitted by the Agreement and the Tax Certificate, working capital expenditures directly related to the Project to the extent permitted by the IRC, and interest prior to, during and for up to one year after construction is substantially complete, but excluding general administrative expenses, overhead of the Institution and interest on internal advances.

“Project Officer” means Vice President for Finance, Director of the Office of Treasury Management, or an alternate or successor appointed by the Institution.

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

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

“Refunded Taxable Notes” means a portion of the notes issued under the Institution’s taxable commercial paper program, a portion of the proceeds of which was used to current refund the Series Z Bonds on January 15, 2010.

“Refunding Trust Agreement” means the Series FF Refunding Trust Agreement dated as of January 1, 2010 among the Authority, the Institution and the refunding bond trustee.

“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 FF Bonds” means the Authority’s Revenue Bonds, Harvard University Issue, Series FF, issued July 24, 2002 and maturing July 15, 2022.

“Series Z Bonds” means the Authority’s Revenue Bonds, Harvard University Issue, Series Z, issued November 9, 2000.

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

“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 January 1, 2010 (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 December 10, 2009 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. As additional security for its obligations to make payments to the Debt Service Fund, the Redemption Fund, the Rebate Fund and the Project Fund, and for its other payment obligations under the Agreement, the Institution grants under the Agreement to the Trustee a security interest in its interest in the moneys and other investments and any proceeds thereof held from time to time in such Funds and the Expense Fund established under 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;  
Project Fund;  
Rebate Fund; and  
Redemption Fund.

(Sections 303, 305, 306, 307 and 401)

### **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 and interest on the Bonds. Promptly after December 15, if the amount deposited by the Institution in the Debt Service Fund during the preceding 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, to the Rebate 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 Trustee 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 Trustee at the written direction of the Institution 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 Project 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 Project 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 Trustee. (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 and interest then due on the Bonds or if on any date the amount in the Rebate Fund is less than the amount then required to be paid to the United States as provided in the Agreement, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) first to the Rebate Fund, and second, to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund or Rebate Fund and any subsequent payment thereof shall be used to restore the funds so applied.

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

### **Rebate Fund**

A Rebate Fund is established with the Trustee under the Agreement. Moneys in the Rebate Fund shall be applied by the Trustee to the payment when due of any rebate due to the United States under IRC §148(f) and the regulations promulgated thereunder. Within forty-five days after the close of each fifth Bond Year (or any earlier date that may be necessary to make a required payment to the United States), the Institution shall compute and certify to the Trustee the amount of Excess Earnings as defined in the Agreement, if any, for the Bonds as of the close of such Bond Years and shall direct the Trustee in writing to transfer such amount from the Debt Service Fund into the Rebate Fund. To the extent funds are not available from those sources, the Institution shall pay the deficiency into the Rebate Fund. (Section 306)

### **Project Fund**

A Project Fund is established under the Agreement to be held by the Trustee and proceeds of the sale of the Bonds shall be deposited therein as provided in the Agreement. The moneys in the Project 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 Trustee solely to the payment or reimbursement of Project Costs. If there is an Event of Default known to the Trustee with respect to payments to the Rebate Fund or the Debt Service Fund, the Trustee may use proceeds held in the Project Fund without requisition to make up the deficiency, and the Institution shall restore the funds so used. Disbursements from the Project Fund shall be made by the Trustee to pay directly or to reimburse the Institution for Project Costs as directed by requisitions signed on behalf of the Institution by an Authorized Officer. (Section 401)

### **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)

### **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 or capitalized 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 or capitalized 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 and interest on the Bonds when due, the Institution shall supply the deficiency. (Section 309)

### **Unconditional Obligation**

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

### **Investments**

Pending their use under the Agreement, moneys in the Funds and Accounts established pursuant to the Agreement may be invested by the Trustee 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, provided that the Institution shall not request, authorize or permit any investment which would cause any Bonds to be classified as "arbitrage bonds" as defined in IRC §148. Notwithstanding the foregoing, any amount of moneys deposited in the Project Fund pursuant to the Agreement which has not been expended within three (3) years of the date of closing shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Bonds, unless otherwise permitted by an Opinion of Bond Counsel. Any investments pursuant to this subsection shall be held by the Trustee as a part of the applicable Fund and shall be sold or redeemed to the extent

necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

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

The term "Permitted Investments" means: (A) Government or Equivalent Obligations, (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 "Aa2" 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 such "tax exempt bonds" 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) negotiable certificates of deposit or other evidences of deposit issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank, which have assets of not less than \$1,000,000,000, provided that the senior debt obligations of the issuing institution are rated "Aa3" or "AA-" or better by Moody's or S&P and mature not more than two years after the date of purchase, (D) bills of exchange or time drafts drawn on and accepted by a commercial bank (otherwise known as bankers acceptances), provided that such bankers acceptances may not exceed 180 days maturity, and provided further that the accepting bank has the highest short-term letter and numerical rating as provided by Moody's or S&P, (E) Repurchase Agreements, (F) money market funds rated at least "Aam" or "AAm-G" by S&P, (G) investment agreements with providers or guarantors rated at least "AA-" and "Aa3" by S&P and Moody's, respectively, (H) collateralized investment agreements with providers or guarantors rated at least "A-" and "A3" by S&P and Moody's, respectively, (I) Federal Agency Securities and participation certificates issued by the Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank System, Student Loan Marketing Association, World Bank or Federal Agricultural Mortgage Corporation, (J) the Massachusetts Health and Educational Facilities Authority Short Term Asset Reserve Fund (MassSTAR); and (K) commercial paper which is rated at the time of purchase at least "A-1+" by S&P or "P-1" by Moody's and which matures not more than 270 days after the date of purchase. 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 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 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 or investment agreements, unless (i) at least three (3) bids are obtained on the proposed Repurchase Agreement or investment agreement from persons other than those with an interest in the Bonds, (ii) the highest yielding Repurchase Agreement or investment agreement for which a qualifying bid is received is purchased, (iii) the provider of the Repurchase Agreement or investment agreement certifies that the yield on the Repurchase Agreement or investment agreement is not less than the yield then available from the provider on reasonably comparable Repurchase Agreements or investment agreements, as applicable, if any, offered to persons who are purchasing the agreement from a source other than proceeds of tax-exempt bonds, (iv) the terms of the Repurchase Agreement or investment 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 allocable to any investment 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)

### **Use of Project**

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

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

Permitted Purposes. The Institution agrees that the Project shall be used only for the purposes described in Section 3(b) of the Act and no part of the Project shall be used for any purpose which would cause the Authority's financing of the Project to constitute a violation of the First Amendment of the United States Constitution. In particular, the Institution agrees that no part of the Project, so long as it is owned or controlled by the Institution, shall be used for any sectarian instruction or as a place of religious worship or in connection with any part of a program of a school or department of divinity for any religious denomination; and any proceeds of any sale, lease, taking by eminent domain of the Project or other disposition thereof shall not be used for, or to provide a place for, such instruction, worship or program. The provisions of the foregoing sentence shall, to the extent required by law, survive termination of the Agreement. (Section 403)

### **Repair and Current Expenses**

The Institution agrees that it will maintain and repair the Project and keep the same in good and serviceable condition and in at least as good condition and repair (reasonable wear and tear and casualty loss excepted) as it was on the date the same was placed in service. The Institution shall pay all costs of maintaining and operating the Project. (Section 404)

### **Insurance**

The Institution shall maintain insurance with insurance companies authorized to transact business in The Commonwealth of Massachusetts on such of its properties, in such amounts and against such risks as is customarily maintained by similar institutions of higher education operating in the area. (Section 405)

## 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 or interest on the Bonds shall not be paid when due or the Institution shall fail to make any payment required of it for the payment of debt service or redemption price of the Bonds.

(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 or the Tax Certificate 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 or in the Tax Certificate by the Institution as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the 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 owners of at least twenty five percent (25%) in principal amount of the Outstanding Bonds. (Section 601)

### **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, the Redemption Fund, the Rebate Fund, the Project Fund and the Expense 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 602)

### **Court Proceedings.**

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

### **Revenues after Default.**

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 604)

### **Remedies Cumulative**

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

### **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 (i) the owners of a majority in principal amount of the Outstanding Bonds to the Trustee, the Authority and the Institution; or (ii) so long as no default or Event of Default exists under the Agreement, from the Institution to the Trustee and the Authority, with the consent of the Authority in its sole discretion. (Section 704)

### **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 901)

### **Proceedings by Bondowners**

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity as provided in 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 902)

### **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 fiscal year, the Institution shall furnish to the Trustee and the Authority and to Bondowners requesting the same, copies of its audited financial statements, unless such audited financial statements are available for public access on the Electronic Municipal Market Access (“EMMA”) website or on the Institution’s website. If the audited financial statements are not available for public access on EMMA or on the Institution’s website, copies of the reports and statements required to be filed with the Trustee pursuant to this section shall be filed with the Trustee in sufficient quantity to permit the Trustee to retain at least one copy for inspection by Bondowners and to permit the Trustee to mail a copy to each Bondowner who requests it. The Trustee shall maintain a list of Bondowners who have made such a request. The Institution shall furnish to the agencies rating the Bonds such information as they may reasonably require for current reports to their subscribers. The Institution shall furnish to the Authority and to the Trustee, within one hundred eighty (180) 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 this Agreement has come to its attention or, if such a default has appeared, a description of the default. (Section 1004)

### **Maintenance of Corporate Existence**

The Institution shall maintain its existence as a nonprofit corporation qualified to do business in The Commonwealth of Massachusetts and shall not dissolve, dispose of or spin off all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation having the status and powers set forth in the Agreement and has received notice from the Internal Revenue Service that it is an entity described in Section 501(c)(3) of the IRC, (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 1005)

### **Tax Matters**

The Institution represents and warrants in the Agreement that (i) it is an organization described in Section 501(c)(3) of the IRC and it is not a “private foundation” as defined in Section 509 of the IRC; (ii) it has received letters from the Internal Revenue Service to that effect; (iii) such letters have not been modified, limited or revoked; (iv) it is in compliance with all terms, conditions and limitations, if any, contained in such letters; and (v) it is exempt from federal income taxes under Section 501(a) of the IRC. To the extent consistent with its status as a nonprofit educational institution, the Institution agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution.

The Institution shall not take or omit to take any action if such action or omission (i) would cause the Bonds to be “arbitrage bonds” under Section 148 of the IRC, (ii) would cause the Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Bonds to cease to be “qualified 501(c)(3) bonds” under Section 145 of the IRC. Without limiting the foregoing, the Institution shall not permit the \$150,000,000 nonhospital bond limitation of IRC §145(b) to be exceeded.

Partly in furtherance of the foregoing, the Authority and the Institution are entering into the Tax Certificate with respect to matters of federal tax law pertaining to the Bonds issued under the Agreement. (Section 1002)

### **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 its obligations under the Continuing Disclosure Agreement or the Agreement and not for money damages in any amount. (Section 1006)

### **Amendment**

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

Except as provided in the foregoing paragraph, the Agreement may be amended only with the written consent of the owners of 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 1101)

### **Defeasance**

When there are in the Debt Service Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations described in clause (i) or (ii) of the definition thereof in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Bonds in full, and when all the rights under the Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien 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 into the Rebate Fund, 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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**Proposed Form of Bond Counsel Opinion**

[Date of Delivery]

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

\$480,000,000  
Massachusetts Health and Educational Facilities Authority  
Revenue Bonds, Harvard University Issue, Series 2010A  
(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 January 1, 2010 (the “Agreement”) among the Authority, President and Fellows of Harvard College (the “Institution”) and The Bank of New York Mellon Trust Company, N.A., 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.

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. Bond Counsel expresses no opinion whether 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

Massachusetts Health and Educational  
Facilities Authority  
[Date of Delivery]  
Page 3

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

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

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

The rights of the holders of the Bonds and the enforceability of the Bonds 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.

EDWARDS ANGELL PALMER & DODGE LLP

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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 The Bank of New York Mellon Trust Company, N.A., as Trustee (the “Trustee”) in connection with the issuance of \$480,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series 2010A (the “Bonds”). The Bonds are being issued pursuant to a Loan and Trust Agreement dated as of January 1, 2010 (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.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement. Filing information relating to the MSRB is set forth in Exhibit B hereto.

“Participating Underwriter” shall mean Barclays Capital Inc., the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“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.

**SECTION 3. Provision of Annual Reports.**

(a) Not later than March 1 of each year, commencing March 1, 2010 (the “Filing Deadline”) the Dissemination Agent shall provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than seven (7) 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 the MSRB 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) 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 (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 the MSRB in substantially the form attached as Exhibit A.

(d) If the Dissemination Agent has not provided the Annual Report to the MSRB 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 January 14, 2010.

(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 January 14, 2010.

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 are available to the public on the MSRB Internet Web site or have been filed with 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 MSRB. 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.     Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

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 the MSRB 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 \_\_, 2010

PRESIDENT AND FELLOWS OF HARVARD  
COLLEGE

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

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Trustee

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

EXHIBIT A

NOTICE TO MSRB 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 2010A  
Name of Obligated Person: President and Fellows of Harvard College  
Date of Issuance: January \_\_, 2010

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 \_\_, 2010 between the Institution and The Bank of New York Mellon Trust Company, N.A., as Trustee.

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

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A., on behalf of PRESIDENT AND  
FELLOWS OF HARVARD COLLEGE

cc: President and Fellows of Harvard College

EXHIBIT B

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board  
<http://emma.msrb.org>  
(or such other electronic format as prescribed by the MSRB)

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