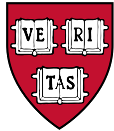
NEW ISSUE – Book-Entry-Only

Ratings: Moody's: Aaa
S&P: AAA
(See "RATINGS" herein)

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.



$601,050,000
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY
REVENUE BONDS, HARVARD UNIVERSITY ISSUE, SERIES 2010B
consisting of

$362,620,000 Series 2010 B-1 **$178,195,000 Series 2010 B-2** **$60,235,000 Series 2010 B-3**

Dated: Date of Delivery **Due: 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 on the Series 2010 B-1 Bonds will be payable on April 15, 2011, and semiannually thereafter on each October 15 and April 15 to the Bondowners of record as of the close of business on the first day of the month of such interest payment date. Interest on the Series 2010 B-2 Bonds will be payable on August 1, 2011, and semiannually thereafter on each February 1 and August 1 to the Bondowners of record as of the close of business on the fifteenth day of the month preceding such interest payment date. Interest on the Series 2010 B-3 Bonds will be payable on July 1, 2011, and semiannually thereafter on each January 1 and July 1 to the Bondowners of record as of the close of business on the fifteenth day of the month preceding 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 Development Finance Agency (the "Issuer") payable solely from the Revenues of the Issuer paid to the Trustee for the account of the Issuer by the President and Fellows of Harvard College (the "Institution") in accordance with the provisions of the Loan and Trust Agreement, dated as of November 1, 2010 (the "Agreement"), among the Issuer, the Institution and the Trustee. The payments pursuant to the Agreement are a general obligation of the Institution.

THE BONDS DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF. THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT UNDER THE AGREEMENT. THE ISSUER HAS NO TAXING POWER UNDER THE ACT.

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 Issuer. 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 November 17, 2010.

Morgan Stanley

BofA Merrill Lynch **J.P. Morgan**
Barclays Capital **Citi**

November 10, 2010

$601,050,000

MASSACHUSETTS DEVELOPMENT FINANCE AGENCY
REVENUE BONDS, HARVARD UNIVERSITY ISSUE, SERIES 2010B

$362,620,000 SERIES 2010 B-1 BONDS

Due October 15,	Amount	Interest Rate	Yield	CUSIP Number**
2020	$50,000,000	5.000%	2.630%	57583R5P6
2028	23,195,000	5.000	3.570*	57583R5K7
2029	18,100,000	5.250	3.570*	57583R5L5
2030	10,650,000	5.000	3.730*	57583R5M3

$260,675,000 5.000% Series 2010 B-1 Bonds due October 15, 2040 – Yield 4.20%*
CUSIP: 57583R5N1**

$178,195,000 SERIES 2010 B-2 BONDS

Due February 1,	Amount	Interest Rate	Yield	CUSIP Number**
2034	$178,195,000	5.250%	4.000%*	57583R5Q4

$60,235,000 SERIES 2010 B-3 BONDS

Due January 1,	Amount	Interest Rate	Yield	CUSIP Number**
2020	$12,495,000	5.000%	2.540%	57583R5R2
2021	12,595,000	5.000	2.760	57583R5S0
2022	12,715,000	5.000	2.930*	57583R5T8
2023	12,830,000	5.000	3.060*	57583R5U5
2024	9,600,000	5.000	3.190*	57583R5V3

** 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 Issuer, 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.

* Yield to first call date.

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 Development Finance Agency, 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 Development Finance Agency 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.

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OFFICIAL STATEMENT
Relating to

$601,050,000
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY
REVENUE BONDS, HARVARD UNIVERSITY ISSUE,
SERIES 2010B
consisting of
$362,620,000 Series 2010 B-1 Bonds
$178,195,000 Series 2010 B-2 Bonds
$60,235,000 Series 2010 B-3 Bonds

INTRODUCTION

Purpose of this Official Statement

This Official Statement, including the cover page, inside cover page and appendices hereto, sets forth certain information in connection with the issuance and sale of the Revenue Bonds, Harvard University Issue, Series 2010B (the "Bonds") consisting of the Revenue Bonds, Harvard University Issue, Series 2010 B-1 (the "Series 2010 B-1 Bonds"), Revenue Bonds, Harvard University Issue, Series 2010 B-2 (the "Series 2010 B-2 Bonds") and the Revenue Bonds, Harvard University Issue, Series 2010 B-3 (the "Series 2010 B-3 Bonds") of the Massachusetts Development Finance Agency (the "Issuer"), a body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Issuer is authorized under Chapter 23G and, to the extent incorporated therein, Chapter 40D of the Massachusetts General Laws (said Chapters, collectively and as amended, the "Act"), and pursuant to a resolution of the Issuer adopted on October 14, 2010 to issue the Bonds. The Bonds will be issued under a Loan and Trust Agreement dated as of November 1, 2010 (the "Agreement") by and among the Issuer, 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 information contained in this Official Statement is provided for use in connection with the initial sale of the Bonds. The definitions of certain terms used and not defined herein are contained in Appendix C — "DEFINITIONS AND SUMMARY OF THE LOAN AND TRUST AGREEMENT."

Plan of Financing

The proceeds of the Series 2010 B-1 Bonds will be applied to (1) current refund the tax-exempt Series HH Bonds, issued as variable rate demand bonds on behalf of the Institution by the Issuer, (2) advance refund a portion of the tax-exempt Series FF Bonds, issued as fixed rate bonds on behalf of the Institution by the Massachusetts Health and Educational Facilities Authority ("MHEFA"), (3) pay at maturity a portion of the tax-exempt commercial paper notes issued on behalf of the Institution by MHEFA, (4) pay at maturity a portion of taxable commercial paper notes issued by the Institution, (5) finance costs associated with the renovation of the Fogg Art Museum and other capital projects of the Institution and (6) pay the costs of issuance of the Series 2010 B-1 Bonds.

The proceeds of the Series 2010 B-2 Bonds will be applied to current refund the tax-exempt Series BB Bonds, issued as variable rate demand bonds on behalf of the Institution by MHEFA.

The proceeds of the Series 2010 B-3 Bonds will be applied to current refund the tax-exempt Series L Bonds, issued as variable rate demand bonds on behalf of the Institution by MHEFA.

On the date hereof, the Institution issued its President and Fellows of Harvard College Taxable Bonds, Series 2010C in the principal amount of $300,000,000.

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 Issuer, 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 Issuer pursuant to the Agreement.

Under the Agreement, the Issuer 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 Issuer 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 Issuer irrespective of whether such parties have notice thereof. The Issuer is obligated to pay the principal or redemption price of and interest on the Bonds solely form the revenues and funds pledged therefor as provided in the Agreement.

The assignment and pledge by the Issuer does not include (i) the rights of the Issuer pursuant to provisions of the Agreement for consent, concurrence, approval or other action by the Issuer, notice to the Issuer, or the filing of reports, certificates or other documents with the Issuer, or (ii) the powers of the Issuer 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 DO NOT CONSTITUTE A GENERAL OBLIGATION OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER OR A DEBT OR PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF. THE PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON THE BONDS ARE PAYABLE SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT UNDER THE AGREEMENT. THE ISSUER HAS NO TAXING POWER UNDER THE ACT.

THE ISSUER

The Issuer is authorized and empowered under the laws of Massachusetts, including the Act, to issue the Bonds for the purposes described herein and to enter into the Agreement and other agreements and instruments necessary to issue and secure the Bonds.

The Members of the Board of Directors and the officers of the Issuer are as follows:

Members of the Board of Directors

Appointed Members

David Abromowitz, Member; Director, Goulston & Storrs, P.C.

Gerald D. Cohen, Vice Chair and Member; President, SF Properties, Inc.

Christopher E. Goode, Member; Vice President, Global Corporate Affairs & Public Policy, EMC Corporation

John F. Hurley, Member; President, Iron Workers District Council of New England

W. Estella Johnson, Member; Director of Economic Development, City of Cambridge

Dennis Kanin, Member; Principal, New Boston Ventures LLC

Richard Kronish, Member

Meghan T. Lynch, Member; ABT Associates Inc.

There is one vacancy on the Board of Directors.

Ex-Officio Members

Chairperson, Secretary of the Executive Offices of Housing and Economic Development, The Commonwealth of Massachusetts

Undersecretary, the Executive Office for Administration and Finance, The Commonwealth of Massachusetts, as designee for the Secretary of the Executive Office for Administration and Finance, The Commonwealth of Massachusetts

Officers of the Issuer

Robert L. Culver, President and Chief Executive Officer

Ann E. Howard, Executive Vice President and Chief Operating Officer

John L. Champion, Treasurer and Executive Vice President of Finance & Administration and Chief Financial Officer

Teresa M. Patten, Secretary

Anne Marie Dowd, General Counsel and Executive Vice President for Legislative Affairs

Laura L. Canter, Executive Vice President for Finance Programs

Richard C.J. Henderson, Executive Vice President for Real Estate

George A. Ramirez, Executive Vice President for Devens Operations

Janet L. Hookailo, Executive Vice President for Marketing and Communications

Steven J. Chilton, Senior Vice President, Investment Banking (Mr. Chilton has signing authority for bond transactions only.)

Except for the information contained herein under the caption "THE ISSUER" and "LEGAL MATTERS" insofar as it relates to the Issuer, the Issuer has not provided any of the information contained in this Official Statement. The Issuer is not responsible for and does not certify as to the accuracy or sufficiency of the disclosures made herein or any other information provided by the Institution, the Underwriters or any other person.

THE ISSUER MAKES NO REPRESENTATION THAT INTEREST ON THE BONDS IS EXCLUDED FROM THE GROSS INCOME OF THE OWNERS THEREOF FOR FEDERAL INCOME TAX PURPOSES OR THAT INTEREST ON THE BONDS IS EXEMPT FROM MASSACHUSETTS INCOME TAX.

THE BONDS

Description of the Bonds

The Series 2010 B-1 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 April 15, 2011 and each October 15 and April 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 Series 2010 B-1 Bonds will be calculated on the basis of twelve thirty-day months for a 360-day year.

The Series 2010 B-2 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 August 1, 2011 and each February 1 and August 1 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 Series 2010 B-2 Bonds will be calculated on the basis of twelve thirty-day months for a 360-day year.

The Series 2010 B-3 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 July 1, 2011 and each January 1 and July 1 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 Series 2010 B-3 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 for the Series 2010 B-1 Bonds and as of the fifteenth day of the preceding month for the Series 2010 B-2 Bonds

and Series 2010 B-3 Bonds (respectively, 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 Issuer, 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.

Mandatory Redemption

Series 2010 B-1 Bonds. The Series 2010 B-1 Bonds maturing on October 15, 2040 are subject to redemption, in part, on each October 15 of the years and in the respective principal amounts set forth below, at 100% of the principal amount thereof, plus accrued interest to the date of redemption, from mandatory Sinking Fund Installments which are required to be made in amounts sufficient to redeem on October 15 of each year the principal amount of Series 2010 B-1 Bonds specified for each of the years shown below:

Series 2010 B-1 Bonds
Maturing on October 15, 2040

Year	Amount
2039	$127,080,000
2040†	133,595,000

† Final Maturity

Series 2010 B-1 Bonds called for optional redemption may be redeemed in such order of maturity or sinking fund installments as directed by the Institution. In addition, the Institution may purchase Series 2010 B-1 Bonds of any maturity and credit them against the principal payment or sinking fund installment for such maturity by delivering them to the Trustee prior to the payment date.

Optional Redemption.

Series 2010 B-1 Bonds. The Series 2010 B-1 Bonds maturing after October 15, 2020 are subject to optional redemption prior to maturity, beginning on October 15, 2020 at the option of the Institution by the written direction of the Institution to the Issuer and the Trustee, as a whole or in part at any time in such order of maturity or sinking fund installment as directed by the Institution, at 100% of their principal amount, plus accrued interest to the redemption date.

Series 2010 B-2 Bonds. The Series 2010 B-2 Bonds are subject to optional redemption prior to maturity, beginning on February 1, 2021 at the option of the Institution by the written direction of the Institution to the Issuer 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.

Series 2010 B-3 Bonds. The Series 2010 B-3 Bonds maturing after January 1, 2021 are subject to optional redemption prior to maturity, beginning on January 1, 2021 at the option of the Institution by the written direction of the Institution to the Issuer 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 subseries and maturity and credit them against a principal payment of the same subseries and maturity of Bonds 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 of a subseries are to be redeemed, the particular Bonds of a subseries 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 recission, 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 Issuer 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 each subseries 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 of a subseries are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such subseries 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 Issuer 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 Issuer 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 Issuer, 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 Issuer 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 Issuer 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 Issuer 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 Issuer, the Institution and the Underwriters believe to be reliable, but the Issuer, 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 OR 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 Issuer, 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 Issuer 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 Issuer or restricted registration is no longer in effect, Bond certificates will be delivered.

NONE OF THE ISSUER, THE INSTITUTION OR 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 Issuer or the Trustee. In addition, the Issuer 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 and subseries, 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 Issuer 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 Series 2010 B-1 Bonds will be applied to (1) current refund the tax-exempt Series HH Bonds, issued as variable rate demand bonds on behalf of the Institution by the Issuer, (2) advance refund a portion of the tax-exempt Series FF Bonds (the "Refunded Series FF Bonds"), issued as fixed rate bonds on behalf of the Institution by the Massachusetts Health and Educational Facilities Authority ("MHEFA"), (3) pay at maturity a portion the tax-exempt commercial paper notes issued on behalf of the Institution by MHEFA, (4) pay at maturity a portion of taxable commercial paper notes issued by the Institution, (5) finance costs associated with the renovation of the Fogg Art Museum and other capital projects of the Institution and (6) pay the costs of issuance of the Series 2010 B-1 Bonds.

The portion of the proceeds of the Series 2010 B-1 Bonds applied to advance refund the Refunded Series FF Bonds will be held by the trustee for the Refunded Series FF Bonds in a segregated account until the redemption date.

The proceeds of the Series 2010 B-2 Bonds will be applied to current refund the tax-exempt Series BB Bonds, issued as variable rate demand bonds on behalf of the Institution by MHEFA.

The proceeds of the Series 2010 B-3 Bonds will be applied to current refund the tax-exempt Series L Bonds, issued as variable rate demand bonds on behalf of the Institution by MHEFA.

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:	Series 2010 B-1	Series 2010 B-2	Series 2010 B-3	Total
Principal Amount of Bonds	$362,620,000	$178,195,000	$60,235,000	$601,050,000
Net Original Issue Premium	33,410,154	18,501,987	10,900,098	62,812,239
Equity Contribution	636,973	1,233,722	405,298	2,275,994
Total Sources	$396,667,127	$197,930,709	$71,540,396	$666,138,232
Uses of Funds:				
Refunding Series L Bonds			$71,140,000	$ 71,140,000
Refunding Series BB Bonds		$196,700,000		196,700,000
Refunding Series HH Bonds	$ 92,235,000			92,235,000
Advance Refunding Series FF Bonds	40,243,878			40,243,878
Repayment of Refunded Tax- Exempt Commercial Paper Notes	96,400,000			96,400,000
Repayment of Refunded Taxable Commercial Paper Notes	20,341,848			20,341,848
Project Costs	145,004,456			145,004,456
Costs of Issuance[1]	2,441,945	1,230,709	400,396	4,073,050
Total Uses	$396,667,127	$197,930,709	$71,540,396	$666,138,232

[1] Includes the Underwriters' compensation and other costs of issuing the Bonds.
** Numbers may not add due to rounding.

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 Issuer 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 Issuer, 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 Morgan Stanley & Co. Incorporated (the "Underwriters"), have agreed to purchase the Bonds at an aggregate purchase price of $662,050,555.00 (representing the principal amount of the Bonds, plus an aggregate original issue premium of $62,812,238.50 and less an

underwriting discount of $1,811,683.50 with respect to the Series 2010 B-1 Bonds), pursuant to a purchase contract. Pursuant to such purchase contract, the Institution also has agreed to pay the Underwriters an additional fee of $1,216,694.92 with respect to the Series 2010 B-2 Bonds and Series 2010 B-3 Bonds. 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 Issuer 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Issuer or the Institution, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer or the Institution.

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.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co. will purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

CONTINUING DISCLOSURE

The Issuer has determined that no financial or operating data concerning the Issuer is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds and the Issuer 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 Issuer 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 not 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 in the last five years.

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 Issuer ("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 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 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 OF MASSACHUSETTS NOT LIABLE ON BONDS

The Bonds are not a general obligation of the Issuer and 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 such political subdivision, but shall be payable solely from and to the extent of the payments made by the Institution pursuant to the Agreement and any other funds held under the Agreement for such purpose. Neither the faith and credit of the Issuer or the Commonwealth nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds. The Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay any debt service on the Bonds in the event of default by the Institution. The Issuer has no taxing power under the Act.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the Issuer are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of such opinion is attached hereto as Appendix D – "PROPOSED FORM OF BOND COUNSEL OPINION." 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 no litigation pending against the Issuer or, to the knowledge of the officers of the Issuer, threatened against the Issuer seeking to restrain or enjoin the issuance or delivery of the Bonds or in any way contesting the existence or the powers of the Issuer relating to the issuance of the Bonds. There is no litigation pending which in any manner questions the right of the Issuer 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. See Appendix A with respect to the absence of material litigation affecting the Institution.

INDEPENDENT ACCOUNTANTS

The financial statements of the Institution as of and for the fiscal year ended June 30, 2010, with summarized comparative financial information as of and for the fiscal year ended June 30, 2009, 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

The Arbitrage Group, Inc. will deliver to the Institution and the Issuer, 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 The Arbitrage Group, Inc. will be solely based upon data, information and documents provided to The Arbitrage Group, Inc. by the Institution, the Underwriters and their representatives. The Arbitrage Group, Inc. 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 Issuer 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 Issuer 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 2010," which includes the audited financial statements of the Institution for the fiscal year ended June 30, 2010. While the information contained in such Report is believed to be reliable, neither the Issuer nor the Underwriters make any representations or warranties whatsoever with respect to such information. The Issuer 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 Issuer.

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 Issuer has consented to the use of this Official Statement. The Issuer is responsible only for the statements contained under the caption "THE ISSUER" and the information pertaining to the Issuer under the caption "LEGAL MATTERS," and the Issuer makes no representation as to the accuracy, completeness or sufficiency of any other information contained herein. Except as otherwise stated herein, neither of the Issuer nor the Underwriter makes any representations or warranties whatsoever with respect to the information contained herein.

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE INSTITUTION

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HARVARD UNIVERSITY

MASSACHUSETTS HALL
CAMBRIDGE, MASSACHUSETTS 02138

November 10, 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

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

William F. Lee
Co-Managing Partner
Wilmer Cutler Pickering Hale and Dorr

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 eight 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 Public Affairs and Communications
Lisa Hogarty	Vice President for Campus Services
Clayton Spencer	Vice President for Policy
Marilyn Hausammann	Vice President for Human Resources
Mark Johnson	Vice President for Capital Planning and Project Management

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 12 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.

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 in December 2009, the University has paused construction of the Allston Science Complex. The Allston Science Complex was the first major project planned in an envisioned significant 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 up to ground level. Near-term initiatives in Allston will focus on property improvements, leasing of vacant or partially vacant Harvard properties, and community engagement. An executive work team is currently reviewing development options.

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 (%)
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
2010-11	30,489	2,205	1,665	7.2	75.5

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
2006-07	6,714	12,181	18,895
2007-08	6,645	12,054	18,699
2008-09	6,673	12,041	18,714
2009-10	6,653	12,296	18,949
2010-11 (est.)	6,634	12,635	19,269

The University expects that near-term enrollments in its undergraduate and graduate programs will remain at their current approximate levels.

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
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
2010-11	38,415	12,308	50,723

Student Financial Aid

The University's undergraduate admissions policy includes the tenet that admission is need-blind. As of June 30, 2010, approximately 75% of undergraduate students received some form of financial aid, with close to 60% qualifying for need-based scholarship assistance. The average undergraduate aid package consists of grants, loans, and employment, and represents 78% of the total cost of attendance.

Total loans to students and parents issued by Harvard and receivable as of June 30, 2010, included $1.7 million of loans issued under the federally guaranteed student loan program, $79.3 million under federally funded revolving loan programs, and $76.4 million under programs funded by donors or by unrestricted funds of the faculties. At the close of fiscal years 2005 through 2010, student loans (in millions of dollars, net of reserve for bad debt) from all University sources amounted to:

	2005	2006	2007	2008	2009	2010
Student Loans Outstanding	$128.6	$126.5	$134.0	$150.4	$157.1	$157.4

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 14,060 employees as of September 30, 2010 (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 2013.

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 expected 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 would be subject to such an examination, and that audit has been underway since December 2009. Team examinations typically extend over more than a year and involve a team of agents reviewing a broad array of activities, as has been the case at Harvard. 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 June 30, 2010, the outstanding balance of the University's tax-exempt commercial paper program was $407,081,000 out of an authorized limit of $1,000,000,000. As of June 30, 2010, the outstanding balance of the University's previously issued taxable commercial paper program was $214,759,000 out of an authorized limit of $2,000,000,000. Aggregate outstanding debt as of June 30, 2010 was approximately $6.3 billion. After giving effect to the sale of the Bonds and the sale of a series of taxable bonds in the amount of $300,000,000, and other related redemptions and repayments, the University estimates that the aggregate outstanding debt will be approximately $6.6 billion.

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This Appendix A and the accompanying "Financial Report Fiscal Year 2010" appended as Appendix B are submitted for inclusion in the Official Statement relating to the Massachusetts Development Finance Agency Revenue Bonds, Harvard University Issue, Series 2010B.

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 2010

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HARVARD UNIVERSITY
FINANCIAL REPORT

FISCAL YEAR **2010**

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Message from the President

I am pleased to present Harvard University's financial results for fiscal 2010. For the year ended June 30, 2010, the University's operating result was approximately breakeven, and our endowment portfolio earned an investment return of 11.0% and had a year-end value of $27.6 billion.

In the wake of the extraordinary economic challenges of the last two years, we have made meaningful reductions in the amounts distributed from our endowment accounts. In addition, our early efforts in cutting costs have focused our attention on how we can operate in more disciplined and integrated ways—how we can seek out efficiencies through new collaborations and approaches to ensure that our spending aligns with core academic priorities, especially during a period of unaccustomed constraint and continued economic uncertainty.

The challenge is not just to tamp down costs but to re-imagine aspects of how we do our work: to make sure we embrace best practices and direct our resources to their highest and best use. For instance, we have made encouraging progress in a major effort to rethink organizational dimensions of our highly decentralized library system. We have an opportunity, and an obligation, to reconsider and rationalize how we administer one of Harvard's greatest treasures and to renew it for an era of unprecedented change in how we collect, transmit, and preserve knowledge and information.

Even as we have brought new discipline to our budgeting, we have made it a priority to hold our doors open wide to students of ability and promise, whatever their economic means. And we have attracted outstanding applicants in record numbers. For the first time, applications to Harvard College surpassed 30,000, for approximately 1,650 places in the entering class. Application numbers climbed in nearly all of our graduate and professional schools as well, with figures at or near historical highs in business, design, education, government, law, and medicine.

This year we have also welcomed new leaders in key domains. We've benefited from the energetic leadership of two first-year deans, Martha Minow at the Law School and Cherry Murray in the School of Engineering and Applied Sciences. Nitin Nohria, a scholar of leadership, ethics, and organizational change, became dean of Harvard Business School this summer. Katie Lapp joined us from the University of California as our executive vice president, and has undertaken a careful review of how the central administration both performs and funds its work. Bill Lee, a leading expert on intellectual property and a former Overseer, joined the Corporation on July 1, succeeding Jamie Houghton, who stepped down after 15 years of distinguished service.

Harvard is a university community of remarkable resilience and energy. It is a community with an uncommon capacity to weather challenges, to learn from them, to adapt and move forward. That we do so, individually and together, matters a great deal—not just to what happens on campus from day to day, not just to the realm of ideas, but to the prospects for progress and enlightened action in a complex and sometimes confounding world. I am grateful to all of you who together deliver Harvard's extraordinary promise.

Sincerely,

Drew Gilpin Faust
PRESIDENT

October 15, 2010

Financial Overview

From the Vice President for Finance and the Treasurer

In its fiscal year ended June 30, 2010, the University made significant progress in managing expenses, strengthening its balance sheet, and laying the foundation to further enhance its finances in the years ahead. At the same time, progress was made on advancing key teaching and research priorities and increasing financial aid for our students. The discussion that follows identifies the key factors affecting the University's operating result for the year ended June 30, 2010 and its financial position as of that date.

OPERATING RESULT

The University's operating result was a deficit of $4.7 million in fiscal 2010, compared to a $45.3 million surplus in fiscal 2009. Note that investment gains and losses (including gains and losses associated with the endowment) are not included in the University's operating result.

SUMMARY OF FINANCIAL RESULTS

In millions of dollars	2010	2009	2008	2007	2006
Total operating revenue	$ **3,724.8**	$ 3,807.4*	$ 3,482.3	$ 3,210.5	$ 2,999.6
Total operating expenses	**3,729.6**	3,762.1*	3,464.9	3,170.7	2,999.5
Total gifts	**597.0**	597.1	690.1	615.0	595.8
Total investments	**33,336.4**	31,480.3	43,804.3	41,832.9	34,249.6
Fixed assets, net	**5,500.6**	5,393.5	4,951.3	4,524.2	4,078.5
Bonds and notes payable	**6,284.2**	5,980.5	4,089.9	3,847.0	2,922.2
Net assets–General Operating Account*	**3,755.6**	3,580.3	6,327.0	5,988.4	4,641.5
Net assets–endowment funds*	**27,557.4**	26,138.2	37,174.8	35,362.3	29,694.0

* *These numbers have been recast to conform with fiscal 2010 presentation.*

OPERATING REVENUE

Total operating revenue declined 2% to $3.7 billion, primarily driven by a 7% reduction in endowment returns made available for operations from $1.4 billion in fiscal 2009 to $1.3 billion in fiscal 2010. Endowment returns made available for operations comprised 35% of total operating revenue in fiscal 2010, compared to 37% in fiscal 2009.

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 6.1% in fiscal 2010, on target with the University's budget projection. We expect the fiscal 2011 payout rate to be approximately 5.4%, a function of both positive fiscal 2010 investment returns and the University's decision to reduce year-over-year distributions to most endowment funds by approximately 12% in fiscal 2011. The University continues to manage the payout rate within a targeted range of 5.0%–5.5%, with the overarching goal of balancing the maintenance of the endowment's purchasing power with the pursuit of nearer term goals and opportunities.

The University's sponsored revenue increased by 9%, from $714 million in fiscal 2009 to $777 million in fiscal 2010. The University has a vibrant research community that continues to compete effectively for sponsored funding.

The federal government provided $621 million in sponsored revenue, with the Department of Health and Human Services accounting for approximately 83% of this amount. Federal funding increased by almost 11% primarily due to awards issued to Harvard through the American Recovery and Reinvestment Act (ARRA). As of June 30, 2010, Harvard had received 264 ARRA awards with a total of $190 million to be spent over the next two to three years, of which $48 million was spent in fiscal 2010.

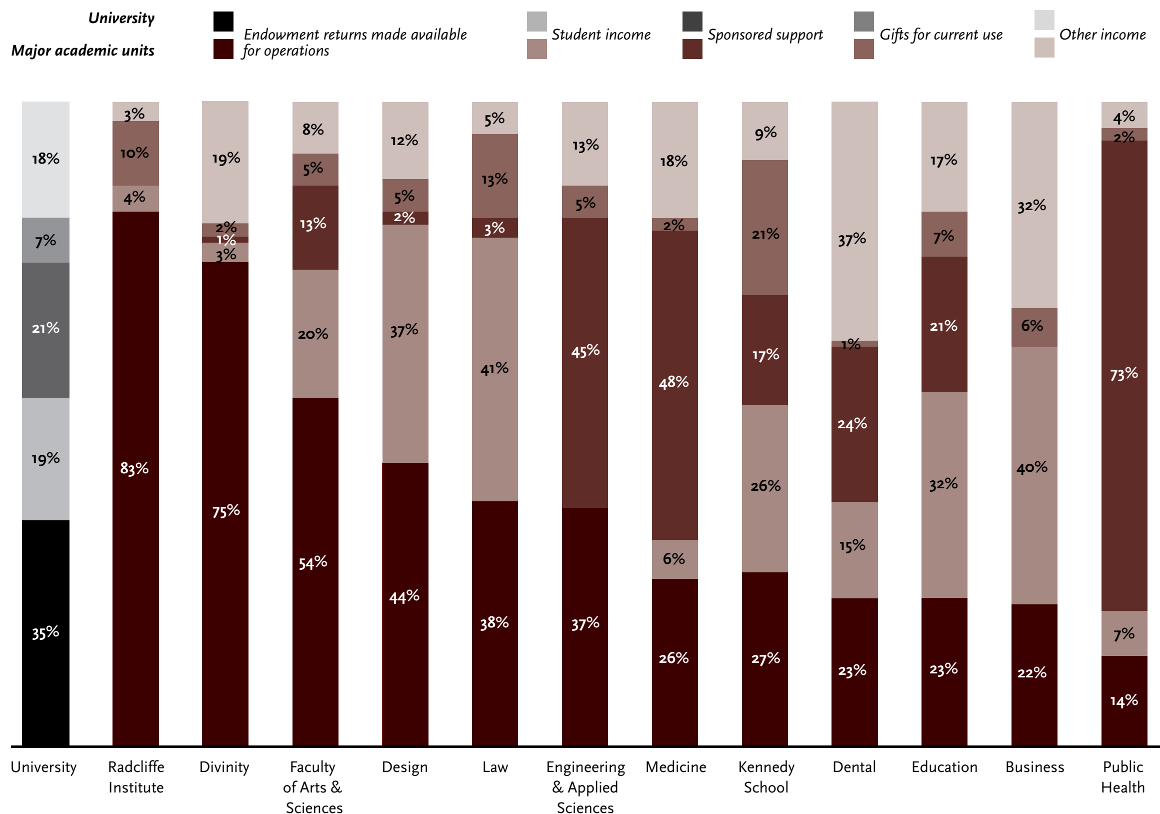
While Harvard's research enterprise has benefited from increased sponsored revenue, its longer-term sustainability will depend in large part on the overall federal budget and its future directions.

Student revenue increased 5%, from $678 million in fiscal 2009 to $712 million in fiscal 2010, driven principally by increases in executive and continuing education, and in revenue from graduate and professional degree programs. Undergraduate student revenue (i.e., undergraduate tuition, fees, board and lodging, less scholarships applied to student income) increased only 1%.

Financial aid (including both stipends and scholarships applied to student income) increased 4% in fiscal 2010. With this increase, the University reaffirmed its strong commitment to managing the net cost to students of attending Harvard. Focusing on net cost allows the University to attract the best students, regardless of their ability to pay, and to enable students to consider a broader range of opportunities after they graduate. For the Class of 2013, Harvard College received 29,000 applications, with a 7% admit rate and 77% yield rate. For the Class of 2014, applications surpassed 30,000 for the first time.

Current use giving decreased by 15%, from $291 million in fiscal 2009 to $248 million in fiscal 2010. Current use gifts provide important funding for the University's ongoing operations and strategic priorities, and are of particular value in sustaining key programs as distributions from the endowment are reduced. Although current use giving was down, total giving, including gifts designated as endowment, remained at the same level as fiscal 2009 (see *Note 17* of the audited financial statements).

FISCAL 2010 SOURCES OF OPERATING REVENUE



OPERATING EXPENSES

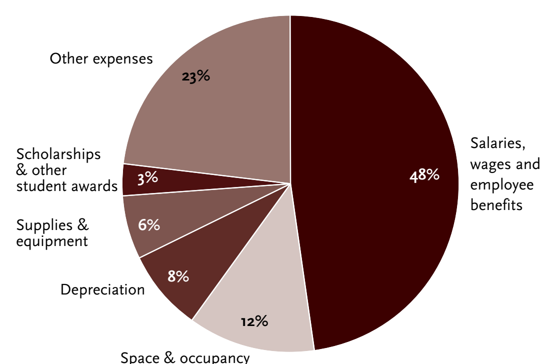
Operating expenses totaled $3.7 billion, a 1% decrease compared to fiscal 2009, reflecting a 2% decline in non-sponsored outlays and a 8% increase in direct sponsored spending, as noted in the table below. Sponsored expenses are funded by the federal government and other sponsors of University activity, for the pursuit of those entities' specific objectives. Non-sponsored spending is more squarely within the University's control, and the 2% decline demonstrates progress made in planned cost reductions.

Further excluding certain costs that tend to be fixed in the near term (i.e., tenured faculty compensation, financial aid, depreciation, and interest), and after adjusting for one-time nonrecurring charges in fiscal 2009 and fiscal 2010, the University's controllable non-sponsored operating expenses decreased by 6%.

In thousands of dollars	2010	2009	$ change	% change
Operating expenses:				
Sponsored (direct)	$ 588,181	$ 542,318	$ 45,863	8%
Non-sponsored	3,141,401	3,219,747	(78,346)	(2)
TOTAL OPERATING EXPENSES	**$ 3,729,582**	**$ 3,762,065**	**$ (32,483)**	**(1)%**
CONTROLLABLE NON-SPONSORED OPERATING EXPENSES	**$ 2,174,673**	**$ 2,304,392**	**$ (129,719)**	**(6)%**

In practically all discretionary cost categories, the University achieved significant reductions in non-sponsored spending. Regarding compensation, which constitutes nearly half of the University's expenses, voluntary and involuntary staff workforce reductions, coupled with flat wage growth in fiscal 2010 in Harvard's faculty and exempt staff populations, led to a reduction of 3%, or approximately $31 million, in non-sponsored salaries and wages. In other categories of spending, expense management efforts yielded equally beneficial results. For example, non-sponsored supplies and equipment, utility and space maintenance costs, travel expenditures, and services purchased declined by 11%, 19%, 13% and 7%, respectively, saving the University approximately $88 million. Programs that enabled these results included utility reduction measures, targeted reviews challenging the need and frequency of routine maintenance and janitorial services, and more restrictive travel practices. Additionally, spending with our preferred vendors was more highly concentrated, allowing the University to achieve greater value through strategic buying. In summary, prudent management of expenses and operations resulted in meaningful savings for the University.

FISCAL 2010 OPERATING EXPENSES



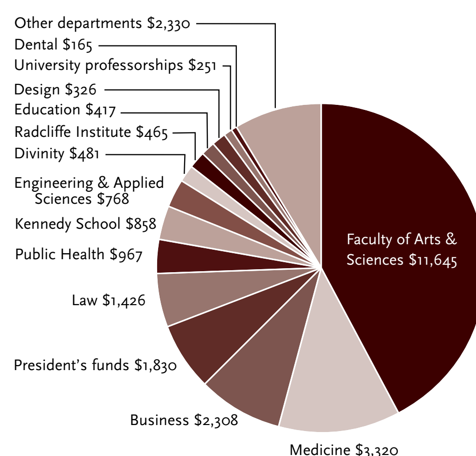
BALANCE SHEET

Investments

In fiscal 2010, the endowment generated positive investment returns of 11.0%, and its value (after the impact of endowment returns made available for operations and the addition of new gifts to the endowment during the year) increased from $26.1 billion at the end of fiscal 2009 to $27.6 billion at the end of fiscal 2010.

FAIR VALUE OF THE ENDOWMENT AS OF JUNE 30, 2010

In millions of dollars



TOTAL FAIR VALUE $27,557

Significant progress was made in transitioning the investment profile of the University's pooled operating funds to be more readily available, and less susceptible to illiquidity and market fluctuations. In past years, the University invested a substantial portion of its pooled operating funds alongside the endowment in the General Investment Account (GIA) managed by Harvard Management Company. The financial crisis highlighted the need for a more diversified investment strategy for these funds. The University already had begun a process of de-risking the funds in fiscal 2008, and through fiscal 2010, a substantial amount of pooled operating funds was moved into liquid investments. As a result, over the last two years, the University's holdings of liquid investments (e.g., cash and treasuries) outside the GIA have increased from approximately $300 million (at June 30, 2008) to approximately $1 billion (at June 30, 2010). Given the University's annual operating budget of $3.7 billion, we expect to maintain or further increase the size of these cash holdings in fiscal 2011, and will continue to assess the most appropriate investment strategies to match the University's assets and liabilities and preserve a proper liquidity balance.

In addition to improving institutional liquidity in fiscal 2010, the University achieved further risk reduction relating to interest rate exchange agreements. The University used offsetting exchange agreements to reduce the portfolio's overall sensitivity to interest rate fluctuations by a substantial amount. The University did not incur any cash expense to execute these offsetting agreements; however, the agreements diminish the University's ability to recover past market value losses if interest rates were to increase in the future. At June 30, 2010, the liability related to interest rate exchange agreements was $731 million (see *Note 3* of the audited financial statements). The University considers the risk of the remaining interest rate exposure to be manageable.

Debt

The University increased its debt to $6.3 billion at June 30, 2010, compared with $6.0 billion at June 30, 2009. This increase was driven by debt issued to support the University's capital spending program. 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 connection with our most recent bond issue in January 2010. More detail on the bond issuance, and the University's broader debt portfolio, can be found in *Note 12* of the audited financial statements.

Capital Expenses

The University invested $324 million in capital projects during fiscal 2010. Of this amount, 46% was spent on new construction and 54% was invested in the existing physical plant.

The University made progress on several significant capital projects during fiscal 2010, including the Harvard Art Museum's renovation and expansion of 32 Quincy Street, and the Harvard Law School's construction of a major new building (and an associated underground parking garage) on its campus.

Since December 2009, when Harvard announced a pause in construction on the Allston Science Complex site, the University has been re-evaluating its Allston strategies in the context of reduced financial resources following fiscal 2009 investment declines. The evaluation has had three areas of focus: property stewardship and community engagement, greening and planning and, as resources allow, campus development.

As it relates to stewardship and community engagement, the University has made significant progress leasing vacant Harvard properties in the Allston portfolio. This progress has been enabled by investing in upgrades and improvements to properties, and offering longer-term lease options in order to drive greater demand by potential tenants. Harvard also has engaged the community by creating interim uses of Allston properties —most notably this past winter's skating rink and this summer's Field and Fairway sports activity center.

Harvard remains committed to greening and landscape improvements, as evidenced by the construction of Library Park and the Ed Portal Learning Garden in Allston, as well as with the landscaping around the Science Complex site.

Finally, the University also is focused on exploring opportunities for campus development, and, to that end, has convened a Work Team composed of Deans, faculty members and alumni. The Work Team is considering academic priorities and planning assumptions, and how they might relate to potential opportunities for development in Allston. This assessment is ongoing, and the Work Team is expected to produce preliminary recommendations for review by University leadership this fiscal year.

SUMMARY

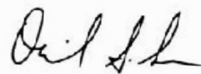
The University has made significant and productive progress in responding to changed economic circumstances. Nonetheless, we must continue to be vigilant in managing our finances in order to ensure that Harvard can fulfill its mission even with the continued uncertainty that surrounds us:

- Given lingering sluggishness in the global economy, it is prudent to expect Harvard's annual investment results to be modest in comparison to the extraordinary returns prior to fiscal 2009;
- Growth in net tuition, assuming constant enrollments, will remain quite moderate absent meaningful improvements in the economic well-being of our students and their families, and of the industries and geographies in which our students seek to have impact; and
- Sponsored revenue is heavily dependent on federal government support of biomedical research, which in turn is subject to budget pressures.

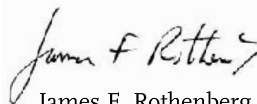
The confluence of these factors challenges not only Harvard, but all major research universities. In order to secure the resources that will allow our faculty and students to thrive, the University will continue to proactively pursue a multi-faceted financial management strategy: identifying administrative activities that can be done more efficiently; developing a clearer prioritization of our teaching, research, and service objectives in order to focus on activities and services that generate the highest value for the University community; exploring opportunities to share resources more extensively within the University and with strategic external partners; and evaluating new activities, consistent with Harvard's mission and values, that have the potential to enhance revenue.

Beyond these endeavors, we also will continue to engage intensively with our alumni and friends, in order to find areas of enhanced alignment between their philanthropic interests and the University's core teaching and research priorities. Notwithstanding the economic uncertainty that pervades most households, we continue to be grateful for, and humbled by, the generous support of our donors.

Whatever pressures may lay ahead, the University's position at the end of fiscal 2010 is strong. While this strength can be demonstrated in any of several financial measures included in the audited financial statements, Harvard's true strength rests with its unparalleled community of students, faculty, staff, alumni and friends, and their shared commitment to ensure the University's ability to impact the world. To this community, we offer our deepest thanks.



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



James F. Rothenberg
TREASURER

October 15, 2010

Message from the CEO of Harvard Management Company

The year ended June 30, 2010 was a successful one for the Harvard endowment and for Harvard Management Company (HMC). We added value over our Policy Portfolio benchmark, strengthened our organization and more closely aligned HMC with the University. In comparison to one year ago, our portfolio and our organization are now significantly better positioned to continue to deliver strong long-term returns as well as actively manage our risks.

The endowment portfolio earned an investment return of 11.0% for the year and was valued at $27.6 billion as of June 30, 2010. The return for the year was 160 basis points above the return that would have been earned by our Policy Portfolio benchmark.

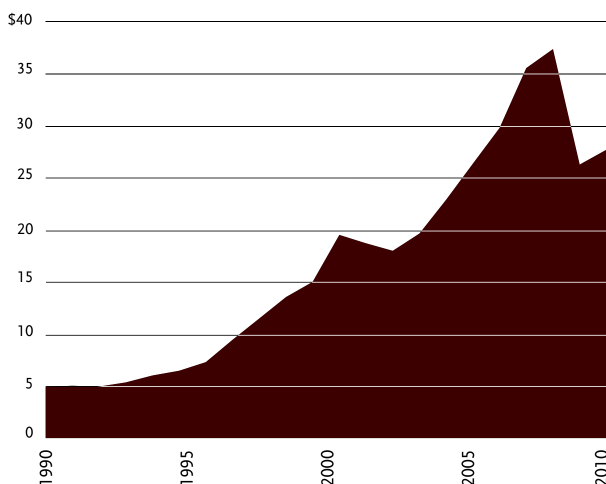
In addition to HMC's financial results, we are pleased with the much improved flexibility of the portfolio we are managing today. We have attended closely over the last two years to liquidity, capital commitments and risk management, while pursuing innovative investment strategies, growing our base of talent, and exploring cross-asset class opportunities.

HISTORICAL CONTEXT

Over the long term, HMC has produced excellent investment returns for the Harvard portfolio. The average annual return on the endowment over the last 20 years has been 11.9% per year. Over the more recent past, returns from the portfolio (and from the markets) have been more modest, averaging 7.0% over the last ten years and 4.7% over the last five years. This recent performance is weighed down substantially by the 2008–2009 global crisis, and it will take many years to recover these losses. However, as shown in the table below, the returns earned by the Harvard endowment have been substantially better over 5, 10 and 20 years

FAIR VALUE OF THE ENDOWMENT

In billions of dollars



HISTORICAL INVESTMENT RETURN ANNUALIZED FOR PERIODS GREATER THAN ONE YEAR

	Harvard[1]	Policy Portfolio Benchmark[2]	60/40 stock/bond Portfolio[3]	TUCS Median[4]
1 year	11.0%	9.4%	12.6%	13.3%
5 years	4.7	3.0	2.1	3.1
10 years	7.0	3.7	2.0	3.4
20 years	11.9	9.3	7.8	8.2

[1] *Total return is net of all internal and external management fees and expenses.*
[2] *Individual benchmarks are representative of each asset class and are approved by the Board of Directors of HMC.*
[3] *S&P 500 / CITI US BIG*
[4] *Trust Universe Comparison Service as compiled by Wilshire Associates.*

when compared with a simple 60/40 stock/bond portfolio or our Policy Portfolio. On average, over the last ten years, HMC has added 5.0% annually over and above the 60/40 portfolio, 3.3% over our Policy Portfolio and 3.6% over the TUCS median fund.

FISCAL YEAR 2010 PERFORMANCE

After a tumultuous ride in fiscal year 2009, the markets in the beginning of fiscal 2010 reflected a return to normalization and a restoration of confidence, at least temporarily. The equity markets pursued a strong upward climb through the first months of our fiscal year, surprising to some, given high unemployment in the U.S. and uncertain economic conditions. Bond markets were functioning fairly normally for the most part, with reasonable liquidity and persistently low rates. High yield spreads declined, indicating that the risk of default was lessening, resulting in strong returns for investors in that sector.

In the second half of the fiscal year, particularly in the June quarter, the positive sentiment began to reverse. As unease set in over the debt load in Greece, questions arose about the fate of the euro and fears of a double-dip recession took hold. Long rates on U.S. Treasuries were pushed lower as investors sought safe haven investments. There were a number of peaks and valleys, but in the end the quarter was quite damaging to equity investors, as many markets sustained double-digit losses for the three month period ended June 30. Despite this volatility, for the full fiscal year, the S&P 500 earned 14.4%, emerging market equities earned 23.2% and foreign developed market equities earned 5.9%. The U.S. Treasury market returned 6.7% while foreign bonds returned 3.0% for the year.

At HMC we began the year close to fully invested in the U.S. and international equity markets, in line with our Policy Portfolio. We also began the year with a small positive cash allocation specifically set aside to take advantage of new opportunities. We were able to add new talent to our team and new investments to the portfolio, a few examples of which are noted as follows:

- During the September quarter, we hired an experienced equity team from a leading hedge fund to expand our internal platform.
- We added to some unique low-beta opportunities (i.e., investments with low correlation to public markets) in our absolute return portfolio.
- We committed new capital to our highest conviction managers in private equity and venture capital funds.
- We made several new real estate investments in sectors we judged to be well-positioned for recovery.

In the majority of individual asset classes our active management added value for the year compared with their relevant market benchmarks. Our return in U.S. equities, at 17.1%, was about 2 percentage points over the U.S. markets and the return in international developed equities, at 12.9%, was over 6 percentage points ahead. Our internal fixed income teams all added value over and above their market benchmarks. Private equity, absolute return and natural resources also generated positive returns relative to their market comparables.

Our emerging market equities and high yield returns were strong, at 17.6% and 19.6%, respectively, although they did not beat their benchmarks. Our real estate portfolio also underperformed its benchmark, as real estate values continued to correct downward during the year. Nevertheless, real estate is one of the areas we find most interesting in terms of current and future opportunities. As a result, we have added experienced leadership to our real estate team that will enable us to strengthen HMC's strategic position and allow us to make high-potential investments over the next several years.

FISCAL 2010 PERFORMANCE

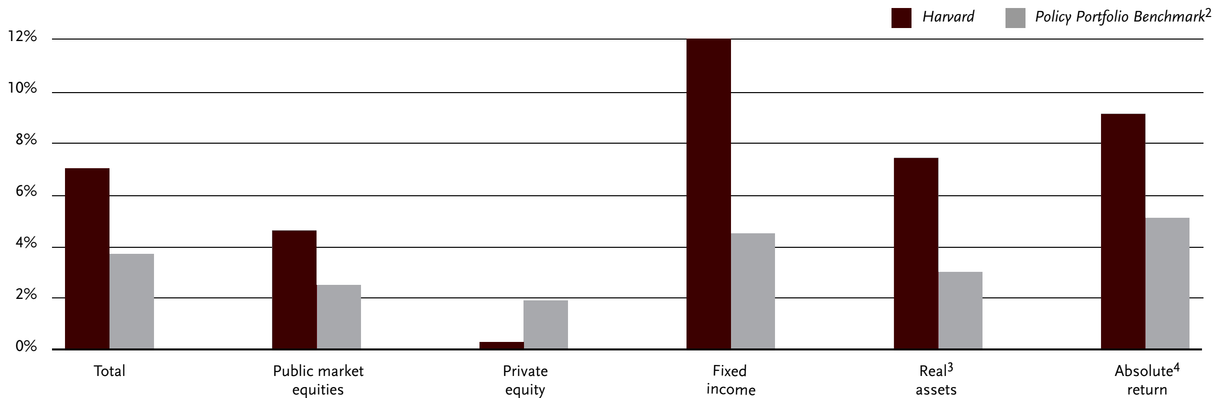
	Harvard[1]	Policy Portfolio Benchmark[2]	Relative
Public market equities	15.8%	15.2%	0.6%
Private equity	16.2	13.3	2.9
Absolute return[3]	15.2	12.3	2.9
Real assets[4]	(2.7)	(4.7)	2.0
Fixed income	8.5	7.2	1.3
Total endowment	11.0	9.4	1.6

[1] *Total return is net of all internal and external management fees and expenses.*
[2] *Individual benchmarks are representative of each asset class and are approved by the Board of Directors of HMC.*
[3] *Absolute return asset class includes high yield.*
[4] *Real assets consist of investments in liquid commodities, natural resources and real estate.*

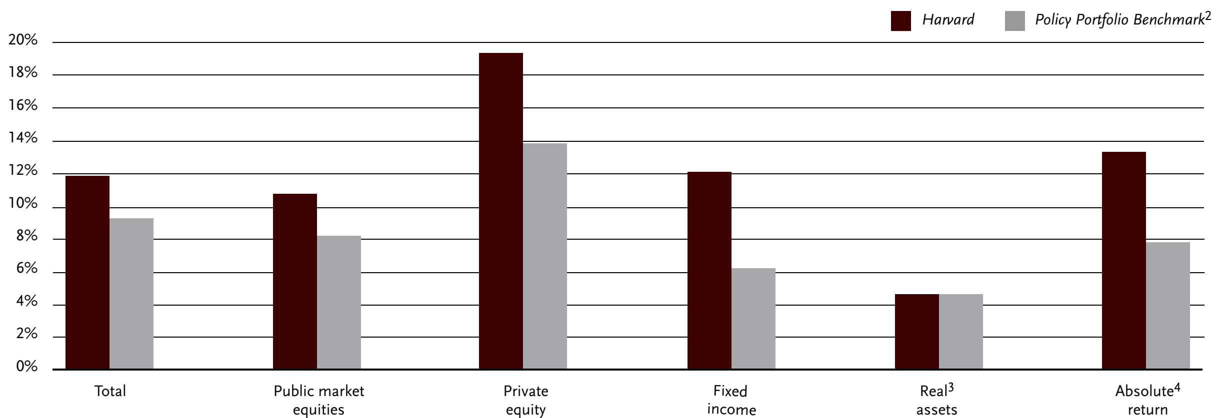
Another area where we are currently active is natural resources, a relatively new asset class that was pioneered by HMC. While nominal returns were relatively low this year, we outperformed the market benchmark significantly, as we have over time. We believe natural resources is a core strength in our portfolio, offering inflation protection, cash flow and long-term growth. At HMC we are well-equipped to recognize and negotiate good value in the natural resources arena, with an experienced in-house team, strong relationships with local operating partners around the world, and a track record of over a decade of transactions. The long-term return on our natural resources portfolio since inception is 13.3% annually.

In summary, with a few exceptions, our individual asset class strategies have been largely value-adding this year, and over the longer term. However, we can not afford to rest on past success. Each year new investment ideas and themes are explored in order to replace strategies that no longer provide attractive returns. We also need to be mindful that our portfolio, while large, still operates under liquidity constraints and spending demands that are greater than they were 5–10 years ago. The endowment now funds 35% of the total University budget. We need to continually tune our asset class strategies and our overall approach to managing the endowment in concert with changing market conditions and the University's evolving needs.

ANNUALIZED TEN-YEAR PERFORMANCE BY ASSET CLASS[1]



ANNUALIZED TWENTY-YEAR PERFORMANCE BY ASSET CLASS[1]



[1] *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 internal and external management fees and expenses.*
[2] *Individual benchmarks are representative of each asset class and are approved by the Board of Directors of HMC.*
[3] *Real assets consist of investments in liquid commodities, natural resources and real estate.*
[4] *Absolute return asset class includes high yield.*

ORGANIZATIONAL UPDATE

The reorientation of the HMC investment platform and organization that began in 2009 bore fruit this year in the form of improved investment performance. While the markets were helpful, there is no doubt that our portfolio and our company benefited from creative and talented new management in a number of key positions.

Investment management is now overseen by two senior executives, Stephen Blyth, the Head of Internal Management, and Andy Wiltshire, the Head of External Management. Stephen and Andy work closely with me and with each other on issues ranging from broadening and deepening our investment talent, evaluating current strategies to unlock competitive edge, and allocating incremental capital to the best investment ideas. Stephen and Andy have collaborated on several joint investigations this year, in one example leading to an improved active commodities strategy, which we will be implementing in fiscal year 2011.

During the course of the last year, we have also strategically focused our attention on key investment support areas. Bob Ettl, who joined HMC in late 2008 as our Chief Operating Officer, has significantly upgraded our operations and IT platforms throughout the company.

The environment for attracting investment talent and experience to HMC has been favorable over the last two years and we have taken advantage of this opportunity. Recognizing that staff will change over time, our approach is to continue to build depth in each of our teams and to install leadership that is not only extremely well-qualified, but is also committed to Harvard over the long term. HMC is well known for providing valuable experience and training which allows us to regularly hire best-in-class talent.

MANAGER RELATIONSHIPS

HMC is in the enviable position of working with some of the finest external managers in the world. We are dedicated to finding the best-in-class managers in each asset class and to creating and fostering long-term partnerships with them. Over time, as the endowment grew, the number of external manager relationships in the portfolio increased, and we found, particularly in the wake of the financial crisis, that some of these relationships and strategies (as well as the fees and terms to which we were bound) were not well-aligned with our goals. We have been increasing manager concentration in the last couple of years, and the number of relationships in the Harvard portfolio has been reduced by about 20% as we focus on partnering with the best of the best and improving the terms under which we operate together, moving toward greater access to our capital and more reasonable fees.

RISK MANAGEMENT

In March, Neil Mason joined us as our new Chief Risk Officer. Neil brings an increased level of experience and sophistication to our analytical functions, and will provide an improved level of risk management to our portfolio. Neil and I have put considerable time, thought and effort into this area, applying lessons learned from the 2008–2009 time period. We have reassessed and augmented our risk models with tougher downside scenarios, analysis of different types of leverage, and liquidity stress tests. Continuous improvement in risk management is critical in what remains an extremely volatile environment.

In addition, senior management at HMC has been working closely with the University this year, and I believe all would agree that we have achieved deeper understanding of appropriate risk parameters and better alignment of the endowment's risk/return profile with the University's goals and needs. A concrete example of how we are achieving this is the Financial Management Committee established in 2009, on which I serve along with Jim Rothenberg, the University's Treasurer. President Faust has charged this group with pursuing integrated risk and financial management across HMC and the University.

COST OF MANAGEMENT

In fiscal year 2010, we engaged a leading consulting firm to assess HMC's cost structure in managing the Harvard endowment, adding an independent, third-party view to our own internal data on this subject. The consulting firm compared HMC's costs to a representative group of asset managers in order to identify areas of best practice and opportunities for improvement. Overall, the study assessed HMC's operating cost structure as significantly less expensive than the cost of equivalent external or outsourced management. This cost differential has saved Harvard over a billion dollars in management fees over the past decade.

We continue to be vigilant in our efforts to maintain our edge, both in our investment performance as well as in managing our business in the most cost effective manner. Through our hybrid model of internal and external management, and the pay-for-performance principles underlying our compensation system, we are able to achieve these goals while containing investment management costs.

STRENGTHENING COMPETITIVE ADVANTAGE

Looking ahead to fiscal year 2011 and beyond, we agree with Federal Reserve Chairman Ben Bernanke that at this point there is "unusual uncertainty" in the outlook for the economy and for the markets. Profit margins are high but unemployment is also high. Governments have been helpful in starting the economic healing process, but they may be running out of new maneuvers. Stocks and bonds, ETFs and options, high quality and risk assets are picked up and dropped by herds of investors in increasingly choppy cycles.

This is a time when our internal trading platform is especially valuable. The signals that our portfolio managers can glean from being in the markets day after day help us to adjust strategies throughout the year. While we do not know what direction markets will take in fiscal year 2011, we are pleased to have a well-diversified portfolio with some room to move. We continue to comb the markets for interesting opportunities, and we continue to sharpen our edge as an investment organization.

While I am often asked about my target for internal versus external management, any shift in assets under management will be incremental and driven by the addition of new talent and strategies, not by any arbitrary target for allocating Harvard's endowment funds. My team and I do think that it makes sense to increase the share of internally managed assets under the right conditions, given the added agility and cost effectiveness of managing money this way.

In areas where we have had good long-term experience and where we have competitive strength, internal fixed income trading and natural resources for example, we have been increasing risk allocations and encouraging our teams to do more when they see good opportunities.

As mentioned earlier in this report, we are increasingly confident that we can develop an edge in real estate and commodities, taking a few pages from the books we've developed around timberland investing and internal trading. The repositioning of our real estate portfolio will take several years, but it began in earnest this year with several new investments outside of the traditional LP fund structure. On the topic of limited partnerships, we also intend to continue to reduce uncalled capital commitments to real estate and private equity fund managers. Our uncalled capital commitments at the end of fiscal year 2010 were $6.6 billion, down from over $11 billion two years ago.

Private equity bears a mention of its own as we look to the future. Harvard has benefited from being an early participant in the private equity arena, and we have a strong team in this area and many important relationships with a number of the best private equity and venture capital investors in the world. However, the field of private equity has become more and more crowded—with capital, with managers and with investors—over the last decade. Our expectations for this asset class are that returns will be more muted going forward, and we are even more committed to holding our fire for the best-in-class opportunities. We will continue to have a meaningful level of exposure to this asset class over the long term, and we are making new commitments to fund strategies that we like, but we anticipate that the number of active relationships within our private equity and venture capital portfolio will be reduced, while the concentration will be increased in our highest conviction managers.

Whether in public or private markets, we are continually aware that the market for good investment ideas is global, not local, and we are challenging ourselves to develop deeper understanding of, and more unique insights into, the world's higher-growth markets. My team and I continually meet with managers and market participants from geographies where we have significant capital at work as well as other key markets. And I must note that we find the Harvard network is a superb resource and we are increasingly coordinating with alumni and faculty contacts as we continue to pursue emerging international investments.

CONCLUSION

At HMC we understand that endowment management is a very specific form of investment management. Unlike a typical investment firm, our sole purpose is to provide resources for a single mission—to support the educational and research objectives of Harvard University. Our constant challenge is to stay ahead of the pack, to distinguish the really unique ideas from the common beliefs, and to find the investments that will pay off best for Harvard.

Most importantly, we strive to add value relative to the Policy Portfolio which is specifically constructed to generate strong, long-term risk-adjusted returns. In this context, a strong year or two (or a weak year or two) pales in comparison to the importance of maintaining a rigorous investment strategy that meets the needs and expectations of the University. Endowment management is a long-term game—we need to keep our eyes on the horizon twenty years out while making investment decisions today.

Fiscal year 2010 was an important and productive year for HMC and for the Harvard portfolio. Going forward, we will continue to build on the success of HMC's strategy and strengthen our organization. We will continue to change—to evolve while not diluting our strengths, to adapt to a dynamic investment and economic landscape, and to position HMC for greater success in the future. We need to provide Harvard with the strength and financial support that it needs to fulfill its mission. I believe we are in an excellent position to do so.

Thank you for your attention and your support.

Jane L. Mendillo
PRESIDENT AND CEO

October 15, 2010

EVOLUTION OF THE POLICY PORTFOLIO

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 over the long term. The HMC Board and management team set the Policy Portfolio and review it annually for continued fit with the University's risk profile and our projections of long-term market returns, volatility and correlations. The Policy Portfolio provides HMC 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.

	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
Total equities	70	43	46
Absolute return	0	12	16
Commodities	6	13	14
Real estate	7	10	9
Total real assets	13	23	23
Domestic bonds	15	11	4
Foreign bonds	5	5	2
High yield	2	5	2
Inflation-indexed bonds	0	6	5
Total fixed income	22	27	13
Cash	-5	-5	2
TOTAL	**100%**	**100%**	**100%**

* *Unchanged for fiscal year 2011.*

PRICEWATERHOUSECOOPERS

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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, 2010, 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 2009 financial statements, and in our report dated October 4, 2009, 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.

PricewaterhouseCoopers LLP

October 15, 2010

BALANCE SHEETS

with summarized financial information as of June 30, 2009

In thousands of dollars	June 30 2010	June 30 2009
ASSETS:		
Cash	$ **31,629**	$ 34,182
Receivables, net (*Note 6*)	**242,474**	244,444
Prepayments and deferred charges	**165,511**	151,197
Notes receivable, net (*Note 7*)	**364,309**	357,445
Pledges receivable, net (*Note 8*)	**772,212**	785,290
Fixed assets, net (*Note 9*)	**5,500,585**	5,393,464
Interests in trusts held by others (*Notes 4, 10 and 14*)	**297,629**	276,571
Investment portfolio, at fair value (*Notes 3 and 4*)	**36,701,525**	34,656,179
Securities pledged to counterparties, at fair value (*Notes 3 and 4*)	**4,158,201**	3,067,027
TOTAL ASSETS	**48,234,075**	**44,965,799**
LIABILITIES:		
Accounts payable	**331,487**	415,926
Deposits and other liabilities	**683,902**	679,619
Securities lending and other liabilities associated with the investment portfolio (*Notes 3, 4 and 12*)	**7,523,366**	6,242,874
Liabilities due under split interest agreements (*Note 11*)	**705,601**	696,987
Bonds and notes payable (*Note 12*)	**6,284,197**	5,980,451
Accrued retirement obligations (*Note 13*)	**909,193**	740,116
Government loan advances (*Note 7*)	**61,396**	69,540
TOTAL LIABILITIES	**16,499,142**	**14,825,513**
TOTAL NET ASSETS	**31,734,933**	**30,140,286**
TOTAL LIABILITIES AND NET ASSETS	**$ 48,234,075**	**$ 44,965,799**

	Unrestricted	Temporarily restricted	Permanently restricted	June 30 2010	June 30 2009
NET ASSETS:					
General Operating Account (*Note 14*)	$ 2,497,600	$ 1,155,112	$ 102,844	$ **3,755,556**	$ 3,580,292
Endowment (*Note 10*)	4,727,776	17,896,039	4,933,589	**27,557,404**	26,138,239
Split interest agreements (*Note 11*)		38,254	383,719	**421,973**	421,755
TOTAL NET ASSETS	**$ 7,225,376**	**$ 19,089,405**	**$ 5,420,152**	**$ 31,734,933**	**$ 30,140,286**

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, 2009

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30 2010	2009
OPERATING REVENUE:					
Student income:					
Undergraduate program	$ 245,885			$ **245,885**	$ 240,139
Graduate and professional degree programs	394,917			**394,917**	371,826
Continuing education and executive programs	242,212			**242,212**	227,673
Board and lodging	147,735			**147,735**	141,084
Scholarships applied to student income (*Note 15*)	(318,911)			**(318,911)**	(302,369)
Total student income	711,838	0	0	**711,838**	**678,353**
Sponsored support (*Notes 16 and 17*):					
Federal government - direct costs	463,009			**463,009**	419,658
Federal government - indirect costs	157,516			**157,516**	139,005
Non-federal sponsors - direct costs	58,496	$ 78,216		**136,712**	137,435
Non-federal sponsors - indirect costs	13,534	6,006		**19,540**	17,540
Total sponsored support	692,555	84,222	0	**776,777**	**713,638**
Gifts for current use (*Note 17*)	74,935	172,964		**247,899**	291,231
Investment income:					
Endowment returns made available for operations (*Note 10*)	233,897	1,086,677		**1,320,574**	1,416,337
GOA returns made available for operations	157,089			**157,089**	165,626
Other investment income	10,898	4,946		**15,844**	21,295
Total investment income	401,884	1,091,623	0	**1,493,507**	**1,603,258**
Other income (*Note 18*)	494,812			**494,812**	520,891
Net assets released from restrictions	1,313,451	(1,313,451)		**0**	0
TOTAL OPERATING REVENUE	**3,689,475**	**35,358**	**0**	**3,724,833**	**3,807,371**
OPERATING EXPENSES:					
Salaries and wages	1,363,348			**1,363,348**	1,384,626
Employee benefits (*Note 13*)	426,124			**426,124**	456,109
Scholarships and other student awards (*Note 15*)	122,021			**122,021**	122,479
Supplies and equipment	217,749			**217,749**	224,404
Space and occupancy (*Note 12*)	454,943			**454,943**	445,071
Depreciation (*Note 9*)	278,360			**278,360**	288,450
Other expenses (*Notes 12 and 19*)	867,037			**867,037**	840,926
TOTAL OPERATING EXPENSES	**3,729,582**	**0**	**0**	**3,729,582**	**3,762,065**
NET OPERATING SURPLUS/(DEFICIT)	**(40,107)**	**35,358**	**0**	**(4,749)**	**45,306**
NON-OPERATING ACTIVITIES:					
Income from GOA investments, net	36,607			**36,607**	22,943
Realized and unrealized appreciation/(depreciation), net (*Note 3*)	205,019			**205,019**	(2,698,805)
GOA returns made available for operations	(157,089)			**(157,089)**	(165,626)
Change in pledge balances (*Note 8*)		27,743		**27,743**	154,470
Change in interests in trusts held by others (*Note 14*)		(1,135)	$ 7,625	**6,490**	(7,794)
Capital gifts for loan funds and facilities (*Note 17*)		6,412	321	**6,733**	2,649
Other changes (*Note 13*)	(112,660)			**(112,660)**	(338,363)
Transfers between GOA and endowment (*Note 10*)	(3,223)	158,904		**155,681**	202,324
Transfers between GOA and split interest agreements (*Note 11*)		8,953	2,536	**11,489**	36,269
Non-operating net assets released from restrictions	186,542	(186,542)		**0**	0
TOTAL NON-OPERATING ACTIVITIES	**155,196**	**14,335**	**10,482**	**180,013**	**(2,791,933)**
GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR	**115,089**	**49,693**	**10,482**	**175,264**	**(2,746,627)**
Endowment net change during the year	459,095	739,175	220,895	**1,419,165**	(11,036,587)
Split interest agreement net change during the year (*Note 11*)		(25,637)	25,855	**218**	(240,707)
NET CHANGE DURING THE YEAR	**574,184**	**763,231**	**257,232**	**1,594,647**	**(14,023,921)**
Net assets, beginning of year	6,651,192	18,326,174	5,162,920	**30,140,286**	44,164,207
NET ASSETS, end of year	**$ 7,225,376**	**$ 19,089,405**	**$ 5,420,152**	**$ 31,734,933**	**$ 30,140,286**

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, 2009

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30 2010	For the year ended June 30 2009
Investment return (*Notes 3* and *10*):					
Income from general investments	$ 33,674	$ 148,728		$ **182,402**	$ 107,551
Realized and unrealized appreciation/(depreciation), net	566,444	1,881,424		**2,447,868**	(9,698,576)
Total investment return	600,118	2,030,152	0	**2,630,270**	(9,591,025)
Endowment returns made available for operations	(233,897)	(1,086,677)		**(1,320,574)**	(1,416,337)
Net investment return	366,221	943,475	0	**1,309,696**	(11,007,362)
Gifts for capital (*Note 17*)	3,564	25,420	$ 211,809	**240,793**	194,459
Transfers between endowment and the GOA (*Note 10*)	3,223	(158,904)		**(155,681)**	(202,324)
Capitalization of split interest agreements (*Note 11*)		42,570	41,176	**83,746**	47,110
Change in pledge balances (*Note 8*)		(21,586)	(17,565)	**(39,151)**	2,925
Change in interests in trusts held by others (*Note 10*)		82	14,486	**14,568**	(57,625)
Other changes	(423)	(31,262)	(3,121)	**(34,806)**	(13,770)
Net assets released from restrictions	86,510	(60,620)	(25,890)	**0**	0
NET CHANGE DURING THE YEAR	**459,095**	**739,175**	**220,895**	**1,419,165**	**(11,036,587)**
Net assets of the endowment, beginning of year	4,268,681	17,156,864	4,712,694	**26,138,239**	37,174,826
NET ASSETS OF THE ENDOWMENT, end of year	**$ 4,727,776**	**$ 17,896,039**	**$ 4,933,589**	**$ 27,557,404**	**$ 26,138,239**

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

STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ **1,594,647**	$ (14,023,921)
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Depreciation	**278,360**	288,450
Change in fair value of interest rate exchange agreements	**52,710**	347,769
Change in interests in trusts held by others	**(21,058)**	65,419
Change in liabilities due under split interest agreements	**8,614**	(211,272)
Realized and unrealized (gain)/loss on investments, net	**(2,847,547)**	11,897,810
Gifts of securities	**(74,919)**	(48,134)
Gifts restricted for capital purposes	**(213,029)**	(187,174)
Changes in operating assets and liabilities:		
Receivables, net	**1,970**	4,915
Prepayments and deferred charges	**(14,314)**	(29,363)
Pledges receivable, net	**13,078**	(158,811)
Retirement assets, net	**0**	293,560
Accounts payable	**(38,701)**	25,708
Deposits and other liabilities	**4,283**	104,846
Accrued retirement obligations	**169,077**	132,689
NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES	**(1,086,829)**	**(1,497,509)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to students, faculty, and staff	**(42,821)**	(56,596)
Payments received on student, faculty, and staff loans	**35,344**	35,211
Change in other notes receivable	**613**	25
Proceeds from the sales of gifts of securities	**74,919**	48,134
Proceeds from the sales and maturities of investments	**55,986,287**	68,474,563
Purchases of investments	**(53,499,938)**	(66,557,720)
Additions to fixed assets	**(426,185)**	(681,165)
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	**2,128,219**	**1,262,452**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in overdrafts included in accounts payable	**(5,034)**	(7,976)
Proceeds from the issuance of debt	**753,742**	3,464,067
Debt repayments	**(449,996)**	(1,573,528)
Gifts restricted for capital purposes	**213,029**	187,174
Change associated with securities lending agreements	**(1,547,540)**	(1,838,443)
Change in government loan advances	**(8,144)**	10,638
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES	**(1,043,943)**	**241,932**
NET CHANGE IN CASH	**(2,553)**	**6,875**
Cash, beginning of year	**34,182**	**27,307**
CASH, end of year	$ **31,629**	$ **34,182**

Supplemental disclosure of cash flow information:		
Change in accounts payable related to fixed asset additions	$ (40,704)	$ (15,480)
Non-cash additions to fixed assets related to capital leases		$ 64,900
Cash paid for interest	$ 274,742	$ 154,626

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 7,180 undergraduate and 13,830 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 (GAAP). Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which the summarized information is derived.

Certain prior year amounts have been reclassified to conform to current year presentation, including the presentation of certain items contributing to the net operating result. The primary reclassification was to reduce endowment returns made available for operations for recapitalizations to the endowment that are required by donor or University policy. These recapitalizations were previously recorded as non-operating transfers between the endowment and the General Operating Account (GOA). Additionally, endowment income from general investments previously reflected in the net assets of the GOA has been reclassified to the net assets of the endowment.

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 with General Operating Account Detail*.

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 endowment funds comprise 87% of the University's unrestricted net assets as of June 30, 2010. 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 returns 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. Investment returns earned by restricted donor funds are initially classified as temporarily restricted net assets and then reclassified to 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 operating surplus/(deficit)

Revenues earned, expenses incurred, and returns 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 operating surplus/(deficit)" in the *Statements of Changes in Net Assets with General Operating Account Detail*.

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 incurred claims, including those related to Harvard Medical School activities occuring away from the affiliated teaching hospitals. The CRICO provided malpractice coverage applies with no deductible for medical professionals practicing within Harvard's University Health Services department, the School of Dental Medicine, and the School of Public Health. The University also maintains reserves for the self-insured portion of claims related to automobile liability, property damage, 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 GAAP in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

New accounting pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009-1 (Codification). The Accounting Standards Codification (ASC) combines all authoritative standards issued by organizations that are in levels A through D of the GAAP hierarchy, such as the FASB, American Institute of Certified Public Accountants and Emerging Issues Task Force, into a comprehensive, topically organized online database. Since this is an accumulation of existing guidance, there is no impact to the financial statements. The Codification became effective for reporting periods that end on or after September 15, 2009.

Effective July 1, 2009, the University adopted ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 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 (NAV), at times allowable under the terms of the investee's governing documents, NAV 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. The effect of this amendment is addressed in *Note 4*.

Effective July 1, 2009, the University adopted ASC 815-10-50, *Disclosures about Derivative Instruments and Hedging Activities* (ASC 815-10-50). ASC 815-10-50 requires additional disclosures about derivative instruments and hedging activities. This new standard 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. The effect of adopting ASC 815-10-50 is further discussed in *Note 5*.

Effective July 1, 2009, the University adopted ASC 715-20, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which provides guidance on expanded disclosures for plan assets of a defined benefit pension or other postretirement plan. ASC 715-20 requires additional disclosure only (see *Note 13*), and therefore did not have an impact on the valuation of the University's postretirement benefit plans.

As of June 30, 2009, the University adopted the provisions of ASC 855, *Subsequent Events* (ASC 855). ASC 855 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. This 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 15, 2010, the date the financial statements were available for issuance. This requires additional disclosures only, and therefore did not have an impact on the University's financial statements.

Effective July 1, 2008, the University adopted ASC 820-10, *Fair Value Measurement* (ASC 820-10), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and enhances disclosures regarding fair value measurements. This general accounting principle 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 fair value measurements is further discussed in *Notes 3* and *4*.

During fiscal year 2009, the University adopted ASC 820-10-65-2, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* (ASC 820-10-65-2). This ASC subtopic clarifies that determining fair value in an inactive or dislocated market depends on facts and circumstances and requires significant management judgment. Specifically, it 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 this guidance.

During fiscal year 2009, the University adopted ASC 820-10-65-4, *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* (ASC 820-10-65-4). This ASC subtopic 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 this guidance.

During fiscal year 2009, the University adopted ASC 815-10, *Disclosures about Credit Derivatives and Certain Guarantees* (ASC 815-10), which amended 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 this amendment is addressed in *Note 5*.

Effective July 1, 2008, the University adopted ASC 825, *Financial Instruments* (ASC 825), which 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 elected to account for split interest agreement liabilities under the fair value option.

Effective July 1, 2008, the University adopted ASC 958-205, *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* (ASC 958-205). ASC 958-205 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 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. The adoption did not have an impact 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, 2010 and 2009. The University endeavors to utilize the best available information in measuring fair value. 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 option, swap, credit default, interest rate, and forward contracts are primarily valued using models with external inputs from independent service providers, or by using independent broker quotes. Investments in most asset classes are at least partially executed 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 investments are valued using discounted cash flow and other industry standard methodologies. Where applicable, independent appraisers and valuation agencies are utilized to 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 certain illiquid and direct investments. 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 using the effective yield method and 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 included in "Investment portfolio, at fair value" in the *Balance Sheets*.

F) The collateral advanced under reverse repurchase and security borrowing agreements is in the form of cash. The minimum collateral the University requires by contract on each loaned security is 100% of the fair value of the security loaned. Collateral is exchanged 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. Other investments are managed separately from the GIA. These investments consist primarily of fixed income securities (principally government securities) held for the University's working capital needs, and publicly traded securities associated with split interest agreements. All investments are measured at fair value using valuation techniques consistent with ASC 820 and the accounting policies presented herein.

The University's investment holdings as of June 30, 2010 and 2009 are summarized in the following table (in thousands of dollars):

	2010	2009
Investment portfolio, at fair value:		
Pooled general investment assets[1]	**$ 34,831,617**	$ 33,436,198
Other investments[2]	**1,869,908**	1,219,981
Total investment portfolio, at fair value	**36,701,525**	34,656,179
Securities pledged to counterparties, at fair value	**4,158,201**	3,067,027
Securities lending and other liabilities associated with the investment portfolio[3]	**(7,523,366)**	(6,242,874)
TOTAL INVESTMENTS[4]	**$ 33,336,360**	**$ 31,480,332**

Investments as of June 30, 2010 and 2009 comprised the following (in thousands of dollars):

	2010	2009
Pooled general investments net assets:		
General Operating Account	**$ 4,502,335**	$ 4,625,249
Endowment[5]	**26,735,087**	25,368,780
Split interest agreements	**684,700**	706,644
Other internally designated funds	**275,168**	237,806
Total pooled general investment net assets	**32,197,290**	30,938,479
Other investments[2]	**1,869,908**	1,219,981
Interest rate exchange agreements, at fair value	**(730,838)**	(678,128)
TOTAL INVESTMENTS[4]	**$ 33,336,360**	**$ 31,480,332**

[1] *Excludes fair value of securities pledged to counterparties.*
[2] *Includes split interest agreement assets of $442,874 and $412,098, as of June 30, 2010 and 2009, respectively.*
[3] *Includes fair value of interest rate exchange agreements of ($730,838) and ($678,128) as of June 30, 2010 and 2009, respectively.*
[4] *Investment holdings include cash and short-term investments that consist principally of funds that have maturities of 90 days or less. Cash and short-term investments were $1,977,814 and $4,158,947 at June 30, 2010 and 2009, respectively.*
[5] *Includes only the portion of the endowment invested in the GIA and excludes pledges, interests in trusts held by others, other non-GIA investments and GIA income.*

A summary of the University's total return on investments for fiscal 2010 and 2009 is presented below (in thousands of dollars):

	2010	2009
Return on pooled general investments:		
Realized and unrealized gains/(losses), net	**$ 2,905,448**	$ (11,838,870)
Investment income	**208,972**	128,602
Total return on pooled general investments*	**3,114,420**	(11,710,268)
Return on other investments:		
Realized and unrealized losses, net	**(57,901)**	(58,940)
Investment income	**41,829**	39,926
Total return on other investments	**(16,072)**	(19,014)
Realized and unrealized losses on interest rate exchange agreements, net	**(107,540)**	(879,178)
TOTAL RETURN ON INVESTMENTS	**$ 2,990,808**	**$ (12,608,460)**

* *Net of all internal and external management 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 determined by the HMC Board of Directors and management team that is considered most likely to meet the University's long-term return goals with the designated 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.

The pooled general investment assets and liabilities as of June 30, 2010 and 2009 are summarized as follows (in thousands of dollars):

	2010	2009
POOLED GENERAL INVESTMENT ASSETS:		
Investment assets:		
Domestic common and convertible equity	**$ 3,046,746**	$ 2,984,608
Foreign common and convertible equity	**1,717,654**	1,314,426
Domestic fixed income	**3,116,566**	1,908,280
Foreign fixed income	**1,382,271**	1,429,341
Emerging market equity and debt	**2,793,060**	2,704,521
High yield	**1,517,709**	1,705,432
Absolute return and special situations funds	**5,286,057**	5,146,719
Private equities	**6,282,736**	5,482,466
Real assets[1]	**6,222,894**	5,648,022
Inflation-indexed bonds	**1,681,589**	1,633,303
Due from broker	**531,046**	1,516,773
Total investment assets[2]	**33,578,328**	31,473,891
Collateral advanced under reverse repurchase and security borrowing agreements	**3,800,481**	722,449
Cash and short-term investments	**935,128**	3,648,580
Other assets[3]	**675,881**	658,305
POOLED GENERAL INVESTMENT ASSETS	**38,989,818**	**36,503,225**
POOLED GENERAL INVESTMENT LIABILITIES:		
Investment liabilities:		
Equity and convertible securities sold, not yet purchased	**273,779**	92,449
Fixed income securities sold, not yet purchased	**1,216,819**	365,101
Due to broker	**516,061**	1,171,683
Total investment liabilities	**2,006,659**	1,629,233
Cash collateral held under security lending agreements	**3,241,959**	1,711,467
Other liabilities[4]	**1,543,910**	2,224,046
POOLED GENERAL INVESTMENT LIABILITIES	**6,792,528**	**5,564,746**
POOLED GENERAL INVESTMENT NET ASSETS[5]	**$ 32,197,290**	**$ 30,938,479**

[1] *Real assets primarily include direct investments in projects and investments held through limited partnerships and commingled funds in natural resources, timber, and real estate.*

[2] *Includes fair value of securities pledged to counterparties where the counterparty has the right to sell or repledge the securities of $4,158,201 and $3,067,027 as of June 30, 2010 and 2009, respectively.*

[3] *As of June 30, 2010, other assets consisted primarily of receivables for the sale of securities of $408,566, and assets consolidated under ASC 810 of $267,312. As of June 30, 2009, other assets consisted primarily of receivables for the sale of securities of $464,467, and assets consolidated under ASC 810 of $191,772.*

[4] *As of June 30, 2010, other liabilities consisted primarily of undistributed income and payables for the purchase of securities of $448,851, and other liabilities consolidated under ASC 810 of $1,030,766. As of June 30, 2009, other liabilities consisted primarily of undistributed income and payables for the purchase of securities of $1,157,496, and other liabilities consolidated under ASC 810 of $1,002,058.*

[5] *The cost of the total pooled general investment net assets was $30,822,563 and $31,435,906 as of June 30, 2010 and 2009, 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, concentration, 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 24 includes the total fair value of securities pledged to counterparties where the counterparty has the right, by contract or practice, to sell or repledge the securities. The total fair value of securities pledged that cannot be sold or repledged was $288.7 million and $169.8 million as of June 30, 2010 and 2009, respectively. The fair value of collateral accepted by the University was $4,159.3 million and $1,824.7 million as of June 30, 2010 and 2009, respectively. The portion of this collateral that was sold or repledged was $234.2 million and $327.3 million as of June 30, 2010 and 2009, respectively.

The University consolidates assets and liabilities held in partnerships or entities controlled by the University. The consolidation of these entities increased the pooled general investment assets and liabilities shown in the table on page 24 by equal amounts. Real asset investments increased by $763.5 million and $810.3 million as of June 30, 2010 and 2009, respectively. Other assets, consisting of cash, receivables, and fixed assets, increased by $267.3 million and $191.8 million as of June 30, 2010 and 2009, respectively. Other liabilities, consisting of accruals, payables, debt, and minority interests, increased by $1,030.8 million and $1,002.1 million as of June 30, 2010 and 2009, respectively.

4. FAIR VALUE OF INVESTMENT ASSETS AND LIABILITIES

As discussed in *Note 2*, in 2009, the University adopted ASC 820 and its applicable amendments. ASC 820 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). In evaluating the level at which the University's externally managed investments have been classified within this hierarchy, management has assessed factors including, but not limited to price transparency, the ability to redeem these investments at NAV at the measurement date, and the existence or absence of certain restrictions at the measurement date. The three levels of the fair value hierarchy under ASC 820 are:

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 significant to the fair value measurement, unobservable and/or require the University to develop its own assumptions.

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, 2010 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:				
Cash and short-term investments	$ 1,977,814			**$ 1,977,814**
Domestic common and convertible equity	235,957	$ 987,236	$ 1,977,249	**3,200,442**
Foreign common and convertible equity	196,000	875,362	711,184	**1,782,546**
Domestic fixed income	3,143,022	205,776	24,613	**3,373,411**
Foreign fixed income	1,393,952			**1,393,952**
Emerging market equity and debt	1,651,883	722,744	418,433	**2,793,060**
High yield	161,800	500,003	869,213	**1,531,016**
Absolute return and special situations funds		2,606,418	2,679,639	**5,286,057**
Private equities			6,358,302	**6,358,302**
Real assets	34,377	59,559	6,145,956	**6,239,892**
Inflation-indexed bonds	1,701,857			**1,701,857**
Due from broker	8,623	476,450	45,973	**531,046**
Other investments	26,985	2,374	3,062	**32,421**
TOTAL INVESTMENT PORTFOLIO ASSETS*	**10,532,270**	**6,435,922**	**19,233,624**	**36,201,816**
Interests in trusts held by others			297,629	**297,629**
TOTAL INVESTMENT ASSETS	**$ 10,532,270**	**$ 6,435,922**	**$ 19,531,253**	**$ 36,499,445**

* *Includes securities pledged to counterparties of $4,158,201 (Note 3) and excludes investment assets not subject to fair value of $4,657,910.*

	Level 1	Level 2	Level 3	Total
INVESTMENT LIABILITIES:				
Equity and convertible securities sold, not yet purchased	$ 273,570		$ 209	**$ 273,779**
Fixed income securities sold, not yet purchased	1,100,924	$ 115,275	620	**1,216,819**
Due to broker	3,014	1,227,984	15,901	**1,246,899**
TOTAL INVESTMENT LIABILITIES**	**1,377,508**	**1,343,259**	**16,730**	**2,737,497**
Liabilities due under split interest agreements		705,601		**705,601**
TOTAL LIABILITIES	**$ 1,377,508**	**$ 2,048,860**	**$ 16,730**	**$ 3,443,098**

** *Includes fair value of interest rate exchange agreements of $730,838 and excludes investment liabilities not subject to fair value of $4,785,869.*

The University's Level 3 investments consist almost entirely of investments managed by external advisors, and direct investments in natural resources and real estate. Investments in externally managed funds generally have limited redemption options for investors and, subsequent to final closing, may or may not permit subscriptions by new or existing investors. These entities may also have the ability to impose gates, lockups, and other restrictions on an investor's ability to readily redeem out of their investment interest in the fund. At June 30, 2010, externally managed funds where the University has the ability and the right to redeem interests within the next twelve months have been classified as Level 2 investments. These funds were classified as Level 3 investments in the previous year.

Also, for June 30, 2010, the University has classified its investments in U.S. government and sovereign debt securities as Level 1 investments. At June 30, 2009, these securities were classified as Level 2 investments.

The University has various sources of internal liquidity at its disposal, including approximately $4.0 billion in cash and cash equivalents (including reverse repurchase agreements of $2.3 billion) at June 30, 2010 in the General Operating Account and General Investment Account. In addition, management estimates that as of that date, it could liquidate additional unencumbered U.S. government securities in excess of $2.1 billion within one business day to meet any immediate short-term needs of the University.

The following is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement that have not been reclassified to reflect the level transfers identified above as of June 30, 2009 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:				
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**
Due from broker	15,320	1,155,248	345,516	**1,516,084**
Other investments	30,257	2,156	6,871	**39,284**
TOTAL INVESTMENT PORTFOLIO ASSETS*	**6,512,299**	**6,330,441**	**23,315,515**	**36,158,255**
Interests in trusts held by others			276,571	**276,571**
TOTAL INVESTMENT ASSETS	**$ 6,512,299**	**$ 6,330,441**	**$ 23,592,086**	**$ 36,434,826**

* *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 $1,564,951.*

	Level 1	Level 2	Level 3	Total
INVESTMENT LIABILITIES:				
Equity and convertible securities sold, not yet purchased	$ 92,335		$ 114	**$ 92,449**
Fixed income securities sold, not yet purchased		$ 361,426	3,675	**365,101**
Due to broker	11,459	1,550,548	287,804	**1,849,811**
TOTAL INVESTMENT LIABILITIES**	**$ 103,794**	**$ 1,911,974**	**$ 291,593**	**$ 2,307,361**

** *Includes fair value of interest rate exchange agreements of $678,128 and excludes investment liabilities not subject to fair value of $3,935,513.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2010 (in thousands of dollars):

	Beginning balance as of July 1, 2009	Realized gains/ (losses)	Change in unrealized gains/ (losses)*	Net purchases/ (sales)	Net transfers in/(out) of Level 3**	Ending balance as of June 30, 2010
INVESTMENT ASSETS:						
Domestic common and convertible equity	$ 3,030,537	$ 44,955	$ 330,842	$ 17,376	$(1,446,461)	**$ 1,977,249**
Foreign common and convertible equity	1,162,592	14,325	252,873	(306,126)	(412,480)	**711,184**
Domestic fixed income	88,837	(29,870)	43,177	(72,906)	(4,625)	**24,613**
Emerging market equity and debt	1,069,217	(69,309)	191,212	(63,895)	(708,792)	**418,433**
High yield	1,167,909	(91,587)	282,625	(388,977)	(100,757)	**869,213**
Absolute return and special situations funds	5,146,719	(39,387)	723,496	(500,961)	(2,650,228)	**2,679,639**
Private equities	5,587,397	127,711	609,101	52,870	(18,777)	**6,358,302**
Real assets	5,670,179	(185,899)	(20,814)	676,263	6,227	**6,145,956**
Inflation-indexed bonds	39,741	18,870	(13,301)	(45,310)		**0**
Due from broker	345,516	156,424	(219,274)	(214,742)	(21,951)	**45,973**
Other investments	6,871	126	(3,935)			**3,062**
TOTAL INVESTMENT PORTFOLIO ASSETS	**23,315,515**	**(53,641)**	**2,176,002**	**(846,408)**	**(5,357,844)**	**19,233,624**
Interests in trusts held by others	276,571		21,217	(159)		**297,629**
TOTAL INVESTMENT ASSETS	**$ 23,592,086**	**$ (53,641)**	**$ 2,197,219**	**$ (846,567)**	**$(5,357,844)**	**$ 19,531,253**
INVESTMENT LIABILITIES:						
Equity and convertible securities sold, not yet purchased	$ 114	$ (7)	$ 102			**$ 209**
Fixed income securities sold, not yet purchased	3,675	(412)	1,238	$ (1,316)	$ (2,565)	**620**
Due to broker	287,804	273,167	(242,837)	(309,470)	7,237	**15,901**
TOTAL INVESTMENT LIABILITIES	**$ 291,593**	**$ 272,748**	**$ (241,497)**	**$ (310,786)**	**$ 4,672**	**$ 16,730**

* *Total unrealized gains/(losses) on Level 3 investment assets and investment liabilities at fair value held by the University at June 30, 2010 were $(554,309).*
** *As previously discussed, changes in classification for certain externally managed funds from Level 3 to Level 2 are included in the above table as transfers out of Level 3.*

The following is a rollforward of Level 3 investments 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) of Level 3	Ending balance as of June 30, 2009
INVESTMENT ASSETS:						
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**
Due from broker	785,546	825,805	(547,438)	(854,549)	136,152	**345,516**
Other investments	19,554	3,324	(15,954)	(53)		**6,871**
TOTAL INVESTMENT PORTFOLIO ASSETS	**34,537,739**	**(259,333)**	**(7,951,597)**	**(3,071,002)**	**59,708**	**23,315,515**
Interests in trusts held by others	341,990		(52,742)	(12,677)		**276,571**
TOTAL INVESTMENT ASSETS	**$ 34,879,729**	**$ (259,333)**	**$ (8,004,339)**	**$ (3,083,679)**	**$ 59,708**	**$ 23,592,086**
INVESTMENT LIABILITIES:						
Equity and convertible securities sold, not yet purchased	$ 113		$ 1			$ **114**
Fixed income securities sold, not yet purchased	120	$ (7,034)	2,277	$ 6,866	$ 1,446	**3,675**
Due to broker	524,199	249,142	(230,858)	(249,041)	(5,638)	**287,804**
TOTAL INVESTMENT LIABILITIES	**$ 524,432**	**$ 242,108**	**$ (228,580)**	**$ (242,175)**	**$ (4,192)**	**$ 291,593**

* *Total unrealized gains/(losses) on Level 3 investment assets and investment liabilities at fair value held by the University at June 30, 2009 were $(1,452,705).*

The University has entered into agreements with private equity and real estate partnerships and external investment managers, which include commitments to make periodic cash disbursements in future periods. The expected amount of these disbursements is broken out below (in thousands of dollars):

	Fair value*	Remaining unfunded commitments	Estimated remaining life**
Private equities	$ 5,487,532	$ 3,229,044	5–10
Real assets	2,128,300	2,877,591	8–10
Other externally managed funds***	1,145,183	533,306	2–8
TOTAL	**$ 8,761,015**	**$ 6,639,941**	

* *Represents the portion of total fair value relating to the remaining unfunded commitment for each asset class.*
** *The estimated remaining lives of these funds, expressed in years, are forward-looking projections based on management's estimates and could vary significantly depending on the investment decisions of external managers, changes in the University's investment portfolio, and other circumstances.*
*** *Investments in externally managed funds primarily include exposures to Absolute return, Domestic, Foreign, and Emerging equities, and High yield asset classes.*

The University's interests in private equity and real estate partnerships generally represent commitments that are not subject to redemption; instead the University is a limited partner in funds that invest in private companies or properties, and pursue special situation strategies. The nature of these investments is that distributions are received through the liquidation of the underlying assets of the partnership. The fair values of the investments in these asset classes have generally been estimated using the NAV of the University's capital account balance with each partnership, unless management has deemed the NAV to be an inappropriate representation of fair value under the University's valuation policy. The University classifies its interest in these types of entities as Level 3 investments within the aforementioned fair value hierarchy.

5. DERIVATIVES

As discussed in *Note 2*, the University adopted ASC 815-10 as of July 1, 2009, which enhances disclosures about the University's derivative and hedging activities in relation to its investment portfolio, and is intended to provide users of financial statements with a greater understanding of how the use of derivatives affects the financial position, financial performance, and cash flows of the University. The University uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement, which are exchange traded or executed over the counter. These instruments are used in both the core portfolio to increase or decrease exposure to a given asset class and in the arbitrage strategies, with the goal of enhancing the returns of certain asset classes. The University may also invest in derivative instruments when it believes investments or other derivatives are mispriced in relation to other investments, and the University can benefit from such mispricing. The fair value of these financial instruments is included in the "Investment portfolio, at fair value" and "Securities lending and other liabilities associated with the investment portfolio" line items of the *Balance Sheets*, with changes in fair value reflected as "Realized and unrealized appreciation/(depreciation), net" within the *Statements of Changes in Net Assets*.

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.

Derivatives held by limited partnerships and commingled investment vehicles pose no off-balance sheet risk to the University due to the limited liability structure of the investments.

The following tables present the gross fair values, and the net profit/(loss) from derivatives by primary risk exposure for the years ended June 30, 2010 and 2009 (in thousands of dollars):

	As of June 30, 2010		For the year ended June 30, 2010
Primary risk exposure	Gross derivative assets	Gross derivative liabilities	Net profit/ (loss)
Equity instruments:			
Equity futures			$ 47,857
Equity options	$ 2,103	$ 489	493
Equity exchange agreements	42,303	141,108	49,553
TOTAL EQUITY INSTRUMENTS	**44,406**	**141,597**	**97,903**
Fixed income instruments:			
Fixed income futures	3,731	10,745	3,001
Fixed income options	5,556	2,573	(910)
Interest rate exchange agreements[1]	350,967	1,024,347	(108,539)
Interest rate caps and floors	154,952	140,177	(8,105)
TOTAL FIXED INCOME INSTRUMENTS	**515,206**	**1,177,842**	**(114,553)**
COMMODITY INSTRUMENTS	**1,354**	**1,011**	**(38,523)**
Currency instruments:			
Currency forwards	1,191,258	1,190,086	(2,971)
Currency options	63,698	37,770	1,721
Currency exchange agreements	16,707	6,076	7,972
TOTAL CURRENCY INSTRUMENTS	**1,271,663**	**1,233,932**	**6,722**
CREDIT INSTRUMENTS	**79,622**	**65,510**	**(165,634)**
GROSS VALUE OF DERIVATIVE CONTRACTS	**1,912,251**	**2,619,892**	**(214,085)**
Counterparty netting[2]	(1,299,951)	(1,307,572)	
INCLUDED IN INVESTMENT PORTFOLIO, AT FAIR VALUE	**$ 612,300**	**$ 1,312,320**	

[1] *Includes $81,254 and $796,259 of gross derivative assets and liabilities, respectively, and a net profit/(loss) of $(107,540), related to interest rate exchange agreements on the University's debt portfolio, further discussed in Note 12.*

[2] *GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the University and a derivative counterparty.*

Primary risk exposure	As of June 30, 2009 Gross derivative assets	Gross derivative liabilities	For the year ended June 30, 2009 Net profit/(loss)
Equity instruments:			
Equity futures		$ 2,378	$ 130,977
Equity options	$ 1,007		(1,396)
Equity exchange agreements	164,027	66,004	(1,103,727)
TOTAL EQUITY INSTRUMENTS	**165,034**	**68,382**	**(974,146)**
Fixed income instruments:			
Fixed income futures	4,610	3,719	(7,612)
Fixed income options	12,224	9,370	73
Interest rate exchange agreements[1]	265,004	950,749	(840,492)
Interest rate caps and floors	127,320	70,410	112,447
TOTAL FIXED INCOME INSTRUMENTS	**409,158**	**1,034,248**	**(735,584)**
Commodity instruments:			
Commodity futures			(1,363,456)
Commodity exchange agreements	1,835		12,824
TOTAL COMMODITY INSTRUMENTS	**1,835**		**(1,350,632)**
Currency instruments:			
Currency forwards	1,308,279	1,311,012	113,535
Currency options	51,932	37,400	10,532
Currency exchange agreements	14,186	14,293	(82,788)
TOTAL CURRENCY INSTRUMENTS	**1,374,397**	**1,362,705**	**41,279**
CREDIT INSTRUMENTS	**860,079**	**654,726**	**553,474**
GROSS VALUE OF DERIVATIVE CONTRACTS	**2,810,503**	**3,120,061**	**$ (2,465,609)**
Counterparty netting[2]	(1,293,730)	(1,297,950)	
INCLUDED IN INVESTMENT PORTFOLIO, AT FAIR VALUE	**$ 1,516,773**	**$ 1,822,111**	

[1] *Includes $650,428 of gross derivative liabilities and a net profit/(loss) of $(879,178) related to interest rate exchange agreements on the University's debt portfolio, further discussed in Note 12.*

[2] *GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the University and a derivative counterparty.*

The following section details the accounting for each type of derivative contract, as well as the University's intended purpose for entering into each type of derivative instrument.

Options

The University purchases and sells put and call options to take advantage of mispricings due to expectations in the marketplace of future volatility of the underlying instruments. When purchasing an option, the University pays a premium, which is included in the Pooled General Investments table in *Note 3* as an asset and subsequently marked-to-market to reflect the current value of the option. Premiums paid for purchased options that expire unexercised are treated as realized losses within the *Statements of Changes in Net Assets of the Endowment*.

When the University sells (writes) a call or put option, an amount equal to the premium received is recorded as a liability in the Pooled General Investments table in *Note 3* and subsequently marked-to-market to reflect the current value of the option written. Premiums received from writing options that expire unexercised are treated as realized gains within the *Statements of Changes in Net Assets of the Endowment*.

When a purchased option is closed before expiration or exercise, the University records a realized gain or loss equal to the difference between the proceeds received upon closing and the premium paid. When a written option is closed before expiration or exercise, the University records a realized gain or loss equal to the difference between the cost to close the option and the premium received from selling the option.

During fiscal 2010, the University transacted approximately 800 equity and fixed income option trades with an average transaction size of approximately 500 contracts. Additionally, the University transacted approximately 200 currency option contracts with average USD equivalent notional amounts of approximately $25.0 million per contract.

Swap contracts

The University enters into swap contracts, which are contracts between two parties to exchange future cash flows at periodic intervals based on a notional principal amount. Payments are exchanged at specified intervals, accrued daily commencing with the effective date of the contract and recorded as realized gains or losses. Gains or losses are realized in the event of an early termination of a swap contract. Risks of loss may include unfavorable changes in the returns of the underlying instruments or indexes, adverse fluctuations of interest rates, failure of the counterparty to perform under the terms of the agreement and lack of liquidity in the market.

Collateral in the form of securities or cash may be posted to or received from the swap counterparty in accordance with the terms of the swap contract. Realized gains or losses are recorded within the *Statements of Changes in Net Assets with General Operating Account Detail* and within the *Statements of Changes in Net Assets of the Endowment* on periodic payments received or made on swap contracts and with respect to swaps that are closed prior to termination date. When the University enters into a swap transaction, it may make or receive a payment equal to the value of the swap on the entry date and amortizes such payments to realized gain or loss over the outstanding term of the swap. The terms of the swap contracts can vary, and they are reported at fair value based on a valuation model or a counterparty provided price.

The University enters into swap contracts to increase or decrease its exposure to changes in the level of interest rates, underlying asset values and/or credit risk. In the normal course of its trading activities, the University enters into credit default, interest rate, and total return swap contracts.

Credit default contracts

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. During fiscal 2010, the University transacted approximately 1,000 credit default contracts with average notional amounts of approximately $10.0 million.

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, 2010, the University's purchased and written credit derivatives had gross notional amounts of $5.6 billion and $0.4 billion, respectively, for total net purchased protection of $5.2 billion in notional value. 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 written as of June 30, 2010 and 2009 (in thousands of dollars):

	As of June 30, 2010							
	Purchased protection		Written protection notional amount					
			Years to maturity					
Credit rating on underlying	Purchased notional amount*	Purchased fair value	< 5 years	5-10 years	Total written credit protection	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
A- to AAA	$ 775,124	$ 8,561	$ 28,749	$ 23,000	$ 51,749	$ 12,249	$ 39,500	$ (1,635)
BBB- to BBB+	4,581,625	11,235	208,280		208,280	5,000	203,280	863
Non-investment grade	164,281	39,771	145,021	20,934	165,955	39,000	126,955	(72,530)
TOTAL	**$ 5,521,030**	**$ 59,567**	**$ 382,050**	**$ 43,934**	**$ 425,984**	**$ 56,249**	**$ 369,735**	**$ (73,302)**

	As of June 30, 2009							
	Purchased protection		Written protection notional amount					
			Years to maturity					
Credit rating on underlying	Purchased notional amount*	Purchased fair value	< 5 years	5-10 years	Total written credit protection	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
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)
TOTAL	**$ 9,438,423**	**$ 840,259**	**$ 1,193,325**	**$ 195,700**	**$ 1,389,025**	**$ 377,685**	**$ 1,011,340**	**$ (452,312)**

* *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 reference obligation, 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.

Interest rate contracts

The University enters into interest rate swaps (including swaptions) to hedge certain investment positions against interest rate fluctuations; to benefit from interest rate fluctuations; to obtain better interest rate terms than it would have been able to get without the swap; or to manage the interest, cost, and risk associated with its outstanding debt and to hedge issuance of future debt. Interest rate swaps involve the exchange by the University with another party of its respective commitments to pay or receive interest at specified intervals based on a notional amount of principal. During fiscal 2010, the University transacted approximately 2,050 interest rate swap and cap and floor contracts with average notional amounts of approximately $225.0 million.

Total return swaps

The University enters into total return swaps to manage its exposure to market fluctuations in various asset classes. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from or make a payment to the counterparty, respectively. During fiscal 2010, the University transacted approximately 100 commodity swap contracts, 1,000 equity swap contracts, and 200 currency swap contracts with average notional amounts of approximately $15.0 million, $2.0 million, and $25.0 million, respectively.

Forward currency contracts

The University enters into forward currency contracts in connection with settling planned purchases or sales of securities, for investment purposes, or to hedge the currency exposure associated with some or all of the University's portfolio securities. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked-to-market daily and the change in value is recorded by the University as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. During fiscal 2010, the University transacted approximately 4,400 forward currency contracts with average USD equivalent notional amounts of approximately $2.5 million.

Futures contracts

The University uses futures to manage its exposure to financial markets, including to hedge such exposures. Buying futures tends to increase the University's exposure to the underlying instrument. Selling futures tends to decrease exposure to the underlying instrument. Upon entering into a futures contract, the University is required to deposit with its prime broker an amount of cash or liquid securities in accordance with the initial margin requirements of the broker or exchange.

Gains and losses are realized when the contracts expire or are closed. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded, and an appropriate payable or receivable for the change in value is recorded by the University. During fiscal 2010, the University transacted approximately 1,000 futures trades with an average transaction size of approximately 200 contracts.

Counterparty credit exposure

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 by the University and are adjusted according to policy.

Some of the financial instruments entered into by the University contain credit-risk-related contingency features that allow the parties to the agreement to demand immediate payment for outstanding contracts and/or collateral. If material credit-risk-related contingency features were triggered on June 30, 2010, the additional collateral due to counterparties for derivative contracts would be $20.6 million.

6. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of $6.6 million and $8.0 million as of June 30, 2010 and 2009, respectively, were as follows (in thousands of dollars):

	2010	2009
Investment income	$ **66,248**	$ 65,714
Federal sponsored support	**43,518**	46,453
Non-federal sponsored support	**12,954**	10,692
Tuition and fees	**13,094**	13,427
Publications	**34,452**	30,882
Gift receipts	**13,108**	9,114
Executive education	**20,939**	18,056
Other	**38,161**	50,106
TOTAL RECEIVABLES, NET	$ **242,474**	$ **244,444**

7. NOTES RECEIVABLE

Notes receivable are recorded initially at face value plus accrued interest which approximates fair value. Notes receivable, net of reserves for doubtful accounts of $8.7 million and $7.9 million as of June 30, 2010 and 2009, respectively, were as follows (in thousands of dollars):

	2010	2009
Student loans:		
Government revolving	$ **79,295**	$ 78,957
Institutional	**76,447**	76,211
Federally insured	**1,681**	1,954
Total student loans	**157,423**	157,122
Faculty and staff loans	**178,460**	171,284
Other loans	**28,426**	29,039
TOTAL NOTES RECEIVABLE, NET	**$ 364,309**	**$ 357,445**

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled $61.4 million and $69.5 million as of June 30, 2010 and 2009, 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.

8. 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 $56.5 million and $78.9 million for the years ended June 30, 2010 and 2009, respectively, were calculated using discount factors based on the appropriate U.S. Treasury Bill rates for pledges received prior to the adoption of ASC 820, and using the University's taxable unsecured borrowing rate for pledges received beginning in fiscal 2009.

Pledges receivable included in the financial statements as of June 30, 2010 and 2009 are expected to be realized as follows (in thousands of dollars):

	2010	2009
Within one year	$ **135,665**	$ 138,788
Between one and five years	**542,658**	555,148
More than five years	**204,998**	233,428
Less: discount and allowance for uncollectible pledges	**(111,109)**	(142,074)
TOTAL PLEDGES RECEIVABLE, NET	**$ 772,212**	**$ 785,290**

Pledges receivable as of June 30, 2010 and 2009 have been designated for the following purposes (in thousands of dollars):

	2010	2009
General Operating Account balances:		
Gifts for current use	$ **319,851**	$ 284,385
Non-federal sponsored grants	**96,515**	111,484
Loan funds and facilities	**21,663**	16,087
Total General Operating Account balances	**438,029**	411,956
Endowment	**334,183**	373,334
TOTAL PLEDGES RECEIVABLE, NET	**$ 772,212**	**$ 785,290**

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 $40.3 million and $45.6 million as of June 30, 2010 and 2009, respectively.

9. FIXED ASSETS

Fixed assets are reported at cost or, if a gift, 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, 2010 and 2009 are summarized as follows (in thousands of dollars):

	2010	2009	Estimated useful life (in years)
Research facilities	$ **1,936,396**	$ 1,876,123	*
Classroom and office facilities	**1,301,983**	1,257,030	35
Housing facilities	**1,108,432**	1,072,255	35
Other facilities	**531,103**	528,402	35
Service facilities	**484,110**	461,512	35
Libraries	**408,508**	418,252	35
Museums and assembly facilities	**317,193**	291,211	35
Athletic facilities	**161,046**	163,258	35
Land	**609,872**	609,872	N/A
Construction in progress	**740,699**	617,502	N/A
Equipment	**804,315**	730,980	**
Total fixed assets, at cost	**8,403,657**	8,026,397	
Less: accumulated depreciation	**(2,903,072)**	(2,632,933)	
TOTAL FIXED ASSETS, NET	$ **5,500,585**	$ **5,393,464**	

* *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 $183.2 million and $188.1 million as of June 30, 2010 and 2009, 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 $65.9 million and $42.2 million, which are included in "Deposits and other liabilities" in the *Balance Sheets* as of June 30, 2010 and 2009, respectively.

10. ENDOWMENT

The University's endowment consists of approximately 11,700 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. As of June 30, 2009, unrestricted net assets were reduced by $123.0 million for such losses. As of June 30, 2010, $83.7 million of that amount remains. Although unrestricted funds functioning as endowment are not subject to donor restrictions, decisions to spend their principal in most cases 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, 2010 and 2009 (in thousands of dollars):

	2010				2009
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Endowment funds	$ (83,700)	$ 15,512,873	$ 4,390,186	$ **19,819,359**	$ 18,926,526
Funds functioning as endowment	4,811,476	2,339,244		**7,150,720**	6,599,805
Pledge balances		32,948	301,235	**334,183**	373,334
Interests in trusts held by others		10,974	242,168	**253,142**	238,574
TOTAL ENDOWMENT	$ **4,727,776**	$ **17,896,039**	$ **4,933,589**	$ **27,557,404**	$ **26,138,239**

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 based on presumptive guidance from a formula that is intended to provide budgetary stability by smoothing the impact of annual investment gains and losses. The formula's inputs reflect expectations about long-term returns and inflation rates. For fiscal 2010, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 5.3% of the fair value of the endowment invested in the GIA as of the beginning of the fiscal year. The total endowment returns made available for operations were $1.3 billion and $1.4 billion in fiscal 2010 and 2009, respectively.

Each year the Corporation also approves certain decapitalizations from the endowment to support strategic, mission-critical activities or objectives that typically are one-time or time-limited. These decapitalizations totaled $237.4 million and $239.6 million in fiscal 2010 and 2009, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 6.1% and 4.5% in fiscal 2010 and 2009, respectively.

11. 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 *Notes 3 and 4*. 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 Bill rates for gifts received prior to the adoption of ASC 820, and using the University's current taxable unsecured borrowing rate for gifts received beginning in fiscal 2009.

The changes in split interest agreement net assets for fiscal 2010 and 2009 were as follows (in thousands of dollars):

	2010			2009
	Temporarily restricted	Permanently restricted	Total	Total
Investment return:				
Investment income	$ 4,278	$ 11,638	**$ 15,916**	$ 16,604
Realized and unrealized appreciation/(depreciation), net	23,286	63,356	**86,642**	(377,674)
Total investment return	27,564	74,994	**102,558**	(361,070)
Gifts for capital (*Note 17*)*	3,598	9,662	**13,260**	16,002
Payments to annuitants	(15,521)	(42,228)	**(57,749)**	(64,358)
Capitalization to the endowment	(42,570)	(41,176)	**(83,746)**	(47,110)
Transfers between SIA and the GOA	(8,953)	(2,536)	**(11,489)**	(36,269)
Change in liabilities and other adjustments	10,245	27,139	**37,384**	252,098
NET CHANGE DURING THE YEAR	**(25,637)**	**25,855**	**218**	**(240,707)**
Total split interest agreement net assets, beginning of year	63,891	357,864	**421,755**	662,462
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 38,254**	**$ 383,719**	**$ 421,973**	**$ 421,755**

* *Shown at net present value. The undiscounted value of these gifts was $32,707 and $32,494 for the years ended June 30, 2010 and 2009, respectively.*

Split interest agreement net assets as of June 30, 2010 and 2009 consisted of the following (in thousands of dollars):

	2010	2009
Split interest agreement investments (*Note 3*):		
Charitable remainder trusts	**$ 745,099**	$ 701,042
Charitable lead trusts	**91,144**	89,758
Charitable gift annuities	**195,831**	239,904
Pooled income funds	**95,500**	88,038
Total split interest agreement investments	**1,127,574**	1,118,742
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	**(605,476)**	(603,522)
Amounts due to other institutions	**(100,125)**	(93,465)
Total liabilities due under split interest agreements	**(705,601)**	(696,987)
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 421,973**	**$ 421,755**

12. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2010 and 2009 were as follows (in thousands of dollars):

	Fiscal year of issue	Remaining years to maturity	One-year effective interest rate	Outstanding principal 2010	Outstanding principal 2009
Tax-exempt bonds and notes payable:					
Variable-rate bonds and notes payable:					
Series L - weekly	1990	14	3.6%	$ **71,140**	$ 71,140
Series R - daily	2000–2006	22	0.2	**131,200**	131,200
Series Y - weekly	2000	25	5.1	**117,905**	117,905
Series BB - weekly	2001	24	0.2	**196,700**	196,700
Series HH - weekly	2004	23	6.7	**92,235**	92,235
Commercial paper	2010	< 1	0.3	**407,081**	449,259
Total variable-rate bonds and notes payable			1.6	**1,016,261**	1,058,439
Fixed-rate bonds:					
Series N	1992	10	6.3	**79,008***	78,908**
Series Z	2001	6	5.3	**28,858***	67,788**
Series DD	2002	25	5.0	**135,038***	135,005**
Series FF	2003	27	5.1	**221,831***	274,973**
Series 2005A	2005	26	4.8	**93,376***	93,539**
Series 2005B	2006	22	4.8	**104,700***	104,888**
Series 2005C	2006	25	4.8	**129,776***	129,930**
Series 2008B	2008	28	4.8	**216,358***	216,622**
Series 2009A	2009	26	5.4	**986,006***	986,908**
Series 2010A	2010	24	4.4	**530,395***	
Total fixed-rate bonds			5.2	**2,525,346**	2,088,561
Total tax-exempt bonds and notes payable			**4.0**	**3,541,607**	**3,147,000**
Taxable bonds and notes payable:					
Series GG2 - weekly	2005	3	4.6	**31,810**	38,935
Series 2006A	2006	27	6.3	**401,416***	401,395**
Series 2008A	2008	28	4.9	**387,715***	387,670**
Series 2008C	2008	8	5.3	**125,205**	125,205
Series 2008D	2009	29	5.9	**1,495,716***	1,495,275**
Commercial paper	2010	< 1	5.5	**214,759**	296,977
Total taxable bonds and notes payable			**5.7**	**2,656,621**	**2,745,457**
Other notes payable	Various	Various	Various	**85,969**	87,994
TOTAL BONDS AND NOTES PAYABLE			**4.8%**	**$ 6,284,197**	**$ 5,980,451**

* *Series N, DD, FF, 2006A, 2008A, 2008D and 2009A principal are net of $1.0 million, $0.8 million, $1.3 million, $0.6 million, $0.3 million, $4.3 million and $14.0 million of discounts, respectively. Series Z, 2005A, 2005B, 2005C, 2008B and 2010A principal include premiums of $0.02 million, $4.3 million, $4.2 million, $3.9 million, $7.5 million and $50.4 million, respectively.*

** *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 $264.9 million and $210.5 million for fiscal 2010 and 2009, respectively. Excluding maturity of commercial paper and unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2011	$ 16,553
2012	17,353
2013	188,258
2014	518,324
2015	38,603
Thereafter	4,835,378
TOTAL PRINCIPAL PAYMENTS	**$ 5,614,469**

In fiscal 2010, the University issued $480.0 million of tax-exempt fixed-rate Series 2010A Bonds. The series was comprised of a $108.7 million issue that will mature in 2034, and various other issues totaling $371.3 million that will mature beginning in 2013 and ending in 2034. Proceeds from Series 2010A were used to refinance a portion of Series Z and Series FF bonds, to finance capital projects under construction, and to finance capital projects initially funded by the University's commercial paper program.

In connection with the issuance of Series 2010A, the University's AAA/Aaa credit ratings were affirmed with Standard & Poor's and Moody's Investors Service, respectively.

In fiscal 2010, the University received reauthorization for its tax-exempt commercial paper program.

In fiscal 2009, the University issued $1.5 billion of taxable fixed-rate Series 2008D Bonds. Proceeds from Series 2008D were used for general University purposes, including the refunding of taxable commercial paper. Also in fiscal 2009, the University issued $1.0 billion of tax-exempt fixed-rate Series 2009A Bonds. Proceeds from Series 2009A were used primarily for refinancing purposes, and to finance capital projects and acquisitions initially funded by the University's commercial paper program. Finally, in fiscal 2009, the University increased the capacity of its taxable commercial paper program to $2.0 billion from $1.0 billion.

Based on quoted market prices, the estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was $6,786.1 million and $6,161.3 million as of June 30, 2010 and 2009, respectively.

As of June 30, 2010, the University had $641.0 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 38. In the event that the University receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered.

In fiscal 2010, the University entered into a $1.75 billion unsecured, 364-day revolving credit facility with a syndicate of banks that matured in August 2010. In August 2010, the University entered into a $2.0 billion unsecured, revolving credit facility with a syndicate of banks, of which $1.0 billion matures in February 2012 and $1.0 billion matures in February 2014.

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 5*, 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 38 reflect any applicable exchange agreements.

In fiscal 2010, the University entered into interest rate exchange agreements with a notional value of $695.5 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 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 $3,823.4 million and $(730.8) million, respectively, as of June 30, 2010 and $3,141.2 million and $(678.1) million, respectively, as of 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 $54.8 million and $33.9 million for fiscal 2010 and 2009, respectively. All unrealized and

realized gains and losses from interest rate exchange agreements are included in the "Realized and unrealized appreciation/(depreciation), 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, 2009	$ 3,141,210
Offsetting interest rate exchange agreements	695,500
Scheduled amortizations	(13,302)
ENDING BALANCE, JUNE 30, 2010	**$ 3,823,408**

13. 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 was $666.0 million and $680.7 million as of June 30, 2010 and 2009, respectively. In addition, the University had internally designated and invested $32.0 million and $29.0 million as of June 30, 2010 and 2009, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of $100.6 million and $101.6 million for fiscal 2010 and 2009, 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, 2010, the University had internally designated and invested $238.1 million to fund the postretirement health benefit accrued liability of $812.3 million. As of June 30, 2009, the University had internally designated and invested $204.1 million to fund an accrued liability of $697.5 million.

The following table sets forth the pension and postretirement plans' funded status that is reported in the *Balance Sheets* as of June 30, 2010 and 2009 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2010	2009	2010	2009
Change in projected benefit obligation:				
Projected benefit obligation, beginning of year	**$ 723,381**	$ 586,309	**$ 697,483**	$ 607,427
Service cost	**12,979**	11,757	**30,936**	29,439
Interest cost	**43,815**	37,849	**44,803**	40,815
Plan participants' contributions			**2,659**	1,955
Federal subsidy on benefits paid			**1,376**	1,224
Gross benefits paid	**(63,089)**	(30,187)	**(21,362)**	(19,657)
Actuarial (gain)/loss	**45,776**	74,708	**56,441**	31,410
Special termination benefits*		42,945		4,870
PROJECTED BENEFIT OBLIGATION, end of year	**762,862**	**723,381**	**812,336**	**697,483**
Change in plan assets:				
Fair value of plan assets, beginning of year	**680,748**	879,869		
Actual return on plan assets	**48,346**	(168,934)		
Gross benefits paid	**(63,089)**	(30,187)		
FAIR VALUE OF PLAN ASSETS, end of year	**666,005**	680,748	**0**	0
FUNDED / (UNFUNDED) STATUS	**$ (96,857)**	**$ (42,633)**	**$ (812,336)**	**$(697,483)**

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

The accumulated benefit obligation associated with pension benefits was $636.7 million and $618.9 million at June 30, 2010 and 2009, respectively. When comparing the accumulated benefit obligation with the fair value of the plan assets, under the Pension Protection Act of 2006 and for ERISA purposes, the plan remains overfunded.

Net periodic benefit (income)/cost

Components of net periodic benefit (income)/cost recognized in operating activity and other amounts recognized in non-operating activity in unrestricted net assets in the *Statements of Changes in Net Assets with General Operating Account Detail* are summarized as follows for the years ended June 30 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2010	2009	2010	2009
Components of net periodic benefit (income)/cost:				
Service cost	**$ 12,979**	$ 11,757	**$ 30,936**	$ 29,439
Interest cost	**43,815**	37,849	**44,803**	40,815
Expected return on plan assets	**(55,656)**	(56,056)		
Amortization of:				
Actuarial (gain)/loss	**(2,792)**	(10,103)	**1,826**	(252)
Prior service (credit)/cost	**(4,694)**	(4,374)	**1,411**	1,411
Transition (asset)/obligation			**6,062**	6,062
Special termination benefits		42,945		4,870
Total net periodic benefit (income)/cost recognized in operating activity	**(6,348)**	22,018	**85,038**	**82,345**
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial loss	**53,086**	299,697	**56,441**	31,410
Amortization of:				
Transition asset/(obligation)			**(6,062)**	(6,062)
Prior service credit/(cost)	**4,694**	4,374	**(1,411)**	(1,411)
Actuarial gain/(loss)	**2,792**	10,103	**(1,826)**	252
Total other amounts recognized in non-operating activity*	**60,572**	314,174	**47,142**	24,189
Total recognized in *Statements of Changes in Net Assets with General Operating Account Detail*	**$ 54,224**	**$ 336,192**	**$ 132,180**	**$ 106,534**

Cumulative amounts recognized as non-operating changes in unrestricted net assets are summarized as follows for the years ended June 30 (in thousands of dollars):

	2010	2009	2010	2009
Net actuarial (gain)/loss	**$ 61,114**	$ 5,235	**$ 83,289**	$ 28,674
Prior service (credit)/cost	**(5,762)**	(10,455)	**2,152**	3,563
Transition (asset)/obligation			**18,187**	24,249
Cumulative amounts recognized in unrestricted net assets*	**$ 55,352**	**$ (5,220)**	**$ 103,628**	**$ 56,486**

* *These amounts totaling $107.7 million in fiscal 2010 and $338.4 million in fiscal 2009 include gains and losses and other changes in the actuarially determined benefit obligations arising in the current period but that have not yet been reflected within net periodic benefit (income)/cost and are included in the "Other Changes" line in the Statements of Changes in Net Assets with General Operating Account Detail.*

The estimated net actuarial gain and prior service credit for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2011 are $(0.9) million and $(4.6) million, respectively. The estimated net actuarial loss, prior service cost and transition obligation for the postretirement health benefits that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2011 are $3.0 million, $1.4 million and $6.1 million, respectively.

Assumptions and health care cost trend rates used in determining the year end obligation as well as the net periodic benefit (income)/cost of the pension and postretirement health plans are summarized as follows for fiscal 2010 and 2009:

	Pension benefits		Postretirement health benefits	
	2010	2009	2010	2009
Weighted-average assumptions used to determine benefit obligation as of June 30:				
Discount rate	**6.00**%	6.25%	**6.00**%	6.25%
Rate of compensation increase	**4.00**%	4.00%	**4.00**%	4.00%
Health care cost trend rate:				
– Initial rate	**N/A**	N/A	**11.00**%	8.00%
– Rate in Year 2	**N/A**	N/A	**8.50**%	7.50%
– Ultimate rate	**N/A**	N/A	**5.00**%	5.00%
– Years to ultimate rate	**N/A**	N/A	**8**	6
Weighted-average assumptions used to determine net periodic benefit (income)/cost:				
Discount rate	**6.25**%	6.50%	**6.25**%	6.50%
Expected long-term rate of return on plan assets	**7.50**%	7.50%	**N/A**	N/A
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

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate would affect 2010 as shown in the following table (in thousands of dollars):

	1% point increase	1% point decrease
Effect on 2010 postretirement health benefits service and interest cost	17,689	(13,528)
Effect on postretirement health benefits obligation as of June 30, 2010	216,854	(145,126)

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.

Plan assets

The actual asset allocation of the investment portfolio for the pension plan for fiscal 2010 and 2009, along with target allocations for fiscal 2011, is as follows:

	2011 target	2010 actual	2009 actual
Asset allocation by category for pension plan:			
Equity securities	44.0%	50.2%	44.5%
Fixed income securities	17.0	13.5	14.4
Real estate	8.0	5.7	6.4
Commodities	3.0	2.2	2.3
Natural resources	5.0	0.7	2.5
Absolute return	18.0	20.4	20.3
Cash	5.0	7.3	9.6
TOTAL OF ASSET ALLOCATION CATEGORIES	**100.0**%	**100.0**%	**100.0**%

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 following is a summary of the levels within the fair value hierarchy for the pension plan assets subject to the fair value measurement as of June 30, 2010 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:				
Absolute return		$ 61,246	$ 80,446	$ **141,692**
Cash and short-term investments	$ 45,879			**45,879**
Commodities			2,036	**2,036**
Domestic and convertible equity	23,159	91,858		**115,017**
Domestic fixed income	46,487	10		**46,497**
Emerging equities, debt and options	76,461			**76,461**
Equity and convertible equity	192			**192**
Foreign and convertible equity	38,311	40,752	1,547	**80,610**
High yield		4,273	57	**4,330**
Inflation-indexed bonds	38,127			**38,127**
Private equities			76,337	**76,337**
Real estate			37,214	**37,214**
TOTAL INVESTMENT ASSETS*	$ **268,616**	$ **198,139**	$ **197,637**	$ **664,392**

* *Excludes investment assets not subject to fair value of $1,613.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2010 (in thousands of dollars):

	Beginning balance as of July 1, 2009	Realized gains/ (losses)	Change in unrealized gains/ (losses)	Net purchases/ (sales)	Net transfers in/(out) of Level 3	Ending balance as of June 30, 2010
INVESTMENT ASSETS:						
Absolute return	$ 152,833	$ (1,263)	$ 11,765	$ (12,443)	$ (70,446)	$ **80,446**
Commodities	14,821	4,672	(12,360)	(5,097)		**2,036**
Domestic and convertible equity	79,724				(79,724)	**0**
Foreign and convertible equity	2,151	(2,329)	3,256	(1,531)		**1,547**
High yield	1,584		(1,527)			**57**
Private equities	74,763	1,608	8,083	(8,117)		**76,337**
Real estate	43,642	302	(14,589)	7,859		**37,214**
TOTAL INVESTMENT ASSETS	$ **369,518**	$ **2,990**	$ **(5,372)**	$ **(19,329)**	$ **(150,170)**	$ **197,637**

Expected future benefit payments

There are no expected employer contributions for fiscal 2011 to funded pension or postretirement health benefit plans. The following table summarizes expected benefit payments and subsidies for pension and postretirement health benefits for the University (in thousands of dollars):

	Expected benefit payments		
Fiscal year	Pension	Postretirement health	Expected Medicare Part D subsidies
2011	$ 51,356	$ 26,418	$ 2,517
2012	46,249	29,737	2,912
2013	47,721	32,323	3,263
2014	49,205	34,997	3,625
2015	50,623	37,642	4,009
2016–2020	273,260	232,622	26,759

14. GENERAL OPERATING ACCOUNT

The 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, 2010 and 2009 are summarized as follows (in thousands of dollars):

	2010	2009
Departmental balances:		
Unexpended endowment income balances	**$ 356,484**	$ 336,251
Unexpended gift balances	**357,286**	360,295
Pledge balances	**378,029**	367,967
Interests in trusts held by others	**39,924**	31,115
Loan funds	**117,860**	115,789
Funds for construction	**4,673**	10,503
Funds invested in fixed assets	**1,570,771**	1,393,072
Other departmental purposes	**359,627**	458,797
Total departmental balances	**3,184,654**	3,073,789
University balances*	**570,902**	506,503
TOTAL GOA NET ASSET BALANCES	**$ 3,755,556**	**$ 3,580,292**

* *Includes interests in trusts held by others of $4,563 and $6,882 for the years ended June 30, 2010 and 2009, respectively.*

15. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2010 and 2009 is summarized as follows (in thousands of dollars):

	2010	2009
Scholarships and other student awards:		
Scholarships applied to student income	**$ 318,911**	$ 302,369
Scholarships and other student awards paid directly to students	**122,021**	122,479
Total scholarships and other student awards	**440,932**	**424,848**
Student employment	**65,347**	65,977
Student loans	**20,173**	25,481
Agency financial aid*	**13,485**	12,516
TOTAL STUDENT FINANCIAL AID	**$ 539,937**	**$ 528,822**

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

16. SPONSORED SUPPORT

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored projects to the University were $620.5 million and $558.7 million in fiscal 2010 and 2009, 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 and the Medical School (including the School of Dental Medicine) through fiscal 2010. For fiscal 2011 and beyond, the University Area and the Medical School (including the School of Dental Medicine) have provisional rates. The University Area and the Medical School anticipate negotiating indirect cost rates for fiscal 2011 and beyond in the fall of 2010. The School of Public Health has predetermined indirect cost rates through fiscal 2013. Funds received for federally sponsored activity are subject to audit.

17. 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, 2010 and 2009 are summarized as follows (in thousands of dollars):

	2010	2009
Gifts for current use	$ **247,899**	$ 291,231
Non-federal sponsored grants	**88,364**	92,798
Gifts for capital:		
Endowment funds	**240,793**	194,459
Split interest agreements*	**13,260**	16,002
Loan funds and facilities	**6,733**	2,649
Total gifts for capital	**260,786**	213,110
TOTAL GIFTS	**$ 597,049**	**$ 597,139**

* *Shown at net present value. The gross value of these gifts was $32,707 and $32,494 for the years ended June 30, 2010 and 2009, respectively.*

18. OTHER INCOME

The major components of other income for the years ended June 30, 2010 and 2009 were as follows (in thousands of dollars):

	2010	2009
Rental and parking	**$ 128,378**	$ 125,908
Royalties from patents, copyrights, and trademarks	**88,431**	88,667
Publications	**69,568**	75,660
Services income	**55,527**	52,960
Health and clinic fees	**48,700**	44,906
Sales income	**46,023**	57,249
Other student income	**7,083**	6,101
Interest income	**9,409**	9,041
Other	**41,693**	60,399
TOTAL OTHER INCOME	**$ 494,812**	**$ 520,891**

19. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2010 and 2009 were as follows (in thousands of dollars):

	2010	2009
Services purchased	**$ 369,529**	$ 394,643
Subcontract expenses under sponsored projects	**153,103**	139,904
Interest	**89,405**	56,631
Travel	**63,724**	69,431
Publishing	**42,919**	46,861
Taxes and fees	**25,764**	25,330
Advertising	**18,668**	18,516
Postage	**17,376**	20,149
Insurance	**15,665**	15,009
Telephone	**11,886**	12,715
Other	**58,998**	41,737
TOTAL OTHER EXPENSES	**$ 867,037**	**$ 840,926**

20. 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, 2010 and 2009 were as follows (in thousands of dollars):

	2010	2009
Instruction	$ **989,969**	$ 995,853
Research	**664,508**	624,242
Institutional support	**636,699**	742,911
Academic support	**513,438**	505,169
Auxiliary services	**433,981**	392,768
Libraries	**224,595**	239,708
Student services	**144,371**	138,935
Scholarships and other student awards	**122,021**	122,479
TOTAL OPERATING EXPENSES	**$ 3,729,582**	**$ 3,762,065**

21. COMMITMENTS AND CONTINGENCIES

Lease commitments

The University is the lessee of equipment and space under operating (rental) and capital leases. Rent expense related to leases was $33.5 million and $33.1 million in fiscal 2010 and 2009, respectively. Future minimum payments under these operating and capital leases are as follows (in thousands of dollars):

	Operating	Capital
2011	$ 43,386	$ 6,839
2012	41,974	6,947
2013	38,193	6,964
2014	34,110	7,033
2015	31,740	7,316
Thereafter	141,046	188,000
TOTAL FUTURE MINIMUM PAYMENTS	**$ 330,449**	**$ 223,099**

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, 2010 totaled approximately $332.7 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.

Electricity purchase commitments

In fiscal 2010, the University entered into Power Purchase Agreements (PPAs) with a series of energy providers to purchase electricity for various quantities and time periods. Future obligations under the PPAs are as follows (in thousands of dollars):

2011	$ 20,107
2012	20,973
2013	18,098
2014	13,788
2015	9,846
Thereafter	35,312
TOTAL ELECTRICITY FUTURE OBLIGATIONS	**$ 118,124**

Broad Institute

On July 1, 2009, the Broad Institute was established as a separate permanent entity. The University, the Massachusetts Institute of Technology (MIT), and the Broad Foundation have transferred employees, research agreements, and related assets and liabilities to the new entity. Included in the "Other expenses" line of the *Statements of Changes in Net Assets with General Operating Account Detail*, is a $52.0 million charge related to this transaction.

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 the Broad Institute 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 $60.0 million in total; of this, $32.5 million has been paid through June 30, 2010. The University had an accrual related to this obligation of $4.5 million and $6.5 million as of June 30, 2010 and 2009, respectively, which is recorded in "Accounts payable" in the *Balance Sheets*.

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 Massachusetts General Laws Chapters 23G and 40D, each as amended from time to time.

"Agreement" means the Loan and Trust Agreement executed by and among the Issuer, the Borrower, and U.S. Bank National Association, (the "Trustee"), as Trustee, dated as of November 1, 2010 as it may be further amended or supplemented as provided therein.

"Authorized Officer" means 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.

"Borrower" or "Institution" means the President and Fellows of Harvard College.

"Bond Counsel" means any attorney at law or firm of attorneys selected by the Issuer, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States, but shall not include counsel for the Borrower.

"Bond Year" means each one year period (or shorter period from the date of issue of the 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 Development Finance Agency Revenue Bonds, Harvard University Issue, Series 2010B, consisting of, collectively, Series 2010 B-1 (the "2010 Series B-1 Bonds"), Series 2010 B-2 (the "2010 Series B-2 Bonds") and Series 2010 B-3 (the "2010 Series B-3 Bonds"), dated the date of original 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 or the notice address 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 that certain Continuing Disclosure Agreement between the Borrower and the Trustee dated the date of issuance and delivery of the Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; (ii) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Home Loan Bank System, the Farm Credit System, or any other agency or instrumentality of the United States of America; and (iii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i) or (ii), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a special account separate from the general assets of such custodian.

"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 the 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 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 Issuer 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.

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the projects financed and refinanced by the refunded bonds and various new capital projects of the Borrower, including renovation of the Fogg Art Museum.

The word "Project" also refers to the facilities which result or have resulted from the foregoing activities.

"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 Borrower 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 Borrower.

"Refunding Trust Agreement" means the Refunding Trust Agreement among the Issuer, the Borrower and U.S. Bank National Association, as trustee for the Series FF Bonds.

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

"S&P" means Standard & Poor's Rating Services,. or any successor rating agency.

"Series L Bonds" means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series L, issued on October 4, 1989.

"Series BB Bonds" means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series BB, issued on November 9, 2000.

"Series EE Notes" means the Massachusetts Health and Educational Facilities Authority Revenue Notes, Harvard University Issue, Series EE, issued on July 22, 2009.

"Series FF Bonds" means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Harvard University Issue, Series FF, issued on July 24, 2002.

"Series HH Bonds" means the Massachusetts Development Finance Agency Revenue Bonds, Harvard University Issue, Series HH, issued on October 29, 2003.

"Taxable Notes" means the Borrower's notes issued under its taxable commercial paper program

"Tax Certificate" means the Tax Certificate and Agreement between the Issuer and the Borrower 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, of certain provisions of the Loan and Trust Agreement dated as of November 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 Issuer on October 14, 2010 which authorizes the issuance of the Bonds.

Establishment of Funds

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

Project Fund;
Expense Fund;
Debt Service Fund;
Rebate Fund; and
Redemption Fund.

(Sections 303, 304, 305, 306 and 401)

Expense Fund

The moneys and investments held in the Expense Fund shall be applied by the Trustee at the written direction of the Borrower solely to the payment or reimbursement of the costs of issuing the Series 2010 B-1 Bonds. The Trustee shall pay from the Expense Fund at the written direction of the Borrower the costs of issuing the Series 2010 B-1 Bonds, the reasonable fees and expenses of financial consultants and bond counsel, the reasonable fees and expenses of the Trustee incurred prior to the completion of the Project, any recording or similar fees and any expenses of the Borrower in connection with the issuance of the Series 2010 B-1 Bonds as directed by the Borrower. 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. 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 Borrower shall be liable for the deficiency and shall pay such deficiency as directed by the Trustee. The Borrower shall pay the costs of issue of the Series 2010 B-2 Bonds and the Series 2010 B-3 Bonds from its own funds. (Section 306)

Project Fund

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 and to the payment of capitalized interest on portion of the Bonds applicable, to the New Part of the Project. If there is an Event of Default known to the Trustee with respect to payments to the Rebate Fund, Debt Service Fund or to the Issuer or the Trustee, the Trustee may use the Project Fund without requisition to make up the deficiency, and the Borrower shall restore the funds so used. (Section 401)

Debt Service Fund

The moneys and investments held in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments) and interest on the Bonds. (Section 303)

Redemption Fund

The moneys and investments held in the Redemption Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the redemption of Bonds. The Trustee may, and upon written direction of the Borrower for specific purchases shall, apply moneys in the Redemption Fund to the purchase of 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 on the purchase of Bonds may 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 be applied by the Trustee to pay the principal (including sinking fund installments) and interest then due on the Bonds, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) to the Debt Service Fund to the extent necessary to meet the deficiency. The Borrower shall remain liable for any sums which it has not paid into the Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied. (Section 304)

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 Borrower shall compute and certify to the Trustee the amount of Excess 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 Borrower shall pay the deficiency into the Rebate Fund. (Section 305)

Application of Moneys

If available moneys in the Debt Service Fund after any required transfers from the Redemption Fund are not sufficient on any day to pay all principal (including sinking fund installments), 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, and second to the payment of principal (including sinking fund installments) 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 this paragraph, 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 307)

Investment of Moneys

Pending their use under the Agreement, moneys in the Funds and Accounts may be invested by the Trustee in Permitted Investments (described 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 Borrower if there is not then an Event of Default known to the Trustee provided that the Borrower 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 which has not been expended within three 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, or in certain other Permitted Investments set forth in the Agreement, unless otherwise permitted by an Opinion of Bond Counsel. Any investments pursuant to this paragraph 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 Uniform Commercial Code to the extent applicable. The Trustee shall not be liable for losses on Investments made in compliance with the Agreement.

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

The term “Permitted Investments” means (A) Government or Equivalent Obligations or shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to Governmental or Equivalent Obligations and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee, (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 (i) 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, or (ii) are insured at all times by the Federal Deposit Insurance Corporation, (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 rated not lower than the second highest category (without regard to gradations within such category) by at least one nationally recognized rating agency, provided that if the investment agreement is guaranteed by a third-party, then such rating requirements shall apply to the guarantor only, and provided further that in all cases such rating requirements shall apply only at the time the investment agreement is executed, (H) collateralized investment agreements with providers rated not lower than the third highest category (without regard to gradations within such category) by at least one nationally recognized rating agency, provided that if the investment agreement is guaranteed by a third-party, then such rating requirements shall apply to the guarantor only, and provided further that in all cases such rating requirements shall apply only at the time the investment agreement is executed, (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, and (J) 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. (Section 311)

Payments by the Borrower

Not later than the opening of business on the date on which a payment of principal (including sinking fund installments) or interest on the Bonds is due, the Borrower shall pay to the Trustee for deposit in the Debt Service Fund an amount equal to such payment less the amount, if any, in the Debt Service Fund and available therefor.

The payments to be made as described under the foregoing paragraph shall be appropriately adjusted to reflect the date of issue of Bonds, any accrued interest deposited in the Debt Service Fund, any earnings on amounts in the Debt Service Fund and any purchase or redemption of Bonds, so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal or sinking fund installment due or coming due on the Bonds and so that accrued or capitalized interest will be applied to the installments of interest to which it is applicable.

At any time when any principal (including sinking fund installments) of the Bonds is overdue, the Borrower 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 as described above shall not otherwise bear interest.

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

The Borrower shall pay the Issuer for reimbursement or prepayment of any and all costs, expenses and liabilities paid or incurred or to be paid or incurred by the Issuer. Within thirty (30) days after notice, the Borrower shall pay all expenditures (except general administrative expenses or overhead) reasonably incurred by the Issuer by reason of the Agreement and the reasonable fees and expenses of the Trustee. (Section 308)

Unconditional Obligation

To the extent permitted by law, the obligation of the Borrower to make payments to the Issuer 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 Borrower to which the full faith and credit of the Borrower are pledged. (Section 309)

Use of Project

Compliance with Law. In the acquisition, construction, maintenance, improvement and operation of the Project, the Borrower covenants that it has complied and will comply, in all material respects, with all material and applicable building, zoning, land use, environmental protection, sanitary, safety and educational laws, rules and regulations, and all material and applicable grant, reimbursement and insurance requirements, and will not permit a nuisance thereon; but it shall not be a breach of this paragraph if the Borrower 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 Borrower is diligently and in good faith contesting the validity thereof.

Payment of Lawful Charges. The Borrower 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 paragraph if the Borrower fails to pay any such item during any period in which the Borrower 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 Borrower agrees that the Project shall be used only for the purposes described in the Act. The Borrower acknowledges that it is fully familiar with the physical condition of the Project and that it is not relying on any representation of any kind by the Issuer or the Trustee concerning the nature or condition thereof. Neither the Issuer nor the Trustee shall be liable to the Borrower or any other person for any latent or patent defect in the Project. (Section 403)

Repair and Current Expenses

The Borrower 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 Borrower shall pay all costs of maintaining and operating the Project. (Section 404)

Insurance

The Borrower 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

"Event of Default" 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.

(i) Debt Service. Any principal or interest on the Bonds shall not be paid when due.

(ii) Other Obligations. The Borrower shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice; or the Borrower 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.

(iii) Warranties. There shall be a material breach of warranty made in the Agreement by the Borrower and the breach is not cured within sixty (60) days after written notice.

(iv) Voluntary Bankruptcy. The Borrower 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, a receiver, a custodian or similar official or agent for itself or any substantial part of its property.

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

(vi) Involuntary Bankruptcy. The Borrower 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.

(vii) 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 Borrower 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 in this paragraph, 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 the provisions of the Agreement summarized in this paragraph if (a) the Borrower 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 is wholly annulled. Immediately upon becoming aware of such breach or event, the Borrower will notify the Trustee and the Issuer.

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, by written notice to the Borrower and shall do so, with the written consent of the Issuer, upon written instruction of the registered owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. (Section 501)

Remedies for Events of Default

If an Event of Default occurs and is continuing, the Trustee may by written notice to the Borrower and the Issuer declare immediately due and payable the principal of the Outstanding Bonds and the payments to be made by the Borrower therefor, and accrued interest on the foregoing.

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, Redemption Fund, Rebate Fund, Project Fund and Expense Fund, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligations of the Borrower under the Agreement. (Section 502)

Court Proceedings

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 503)

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. (Section 505)

Limitations on Bondowners' Remedies

Upon a failure of the Borrower to make a required debt service or purchase price payment when the same becomes due and payable, the Trustee shall give written notice of such default to the Issuer and the Borrower. The Trustee shall not be required to take notice of any other breach or default by the Borrower or the Issuer unless given written notice thereof by the registered owners of at least ten percent (10%) in principal amount of the Outstanding Bonds. The Issuer shall not be required to take notice of a breach or default by the Borrower except when given notice thereof by the Trustee. The Trustee shall give default notices and accelerate payments when so instructed in writing by the registered owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. The Trustee shall institute legal proceedings to enforce the obligations of the Issuer under the Agreement in accordance with the written directions of the registered owners of a majority in principal amount of the Outstanding Bonds. Neither the Trustee nor the Issuer shall be required to take remedial action (other than acceleration, or the giving of notice, in the case of the Trustee), unless reasonable indemnity is furnished for any expense or liability to be incurred therein.

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 Issuer and the Trustee have failed or refused to take action as required by the Agreement. (Sections 502, 602, 703 and 802)

Indemnification; Limits of Responsibility; Replacement of the Trustee

The Agreement sets forth certain immunities and limitations of the responsibilities of the Issuer and the Trustee and provides for indemnification of the Issuer and the Trustee against claims relating to the Agreement or the Project.

The Trustee may resign on not less than 30 days' notice given in writing to the Issuer, the Bondowners and the Borrower, but such resignation shall not take effect until a successor has been appointed. The Trustee may be removed (i) by written notice from the registered owners of a majority in principal amount of the Outstanding Bonds to the Trustee, the Issuer and the Borrower, (ii) so long as no default or Event of Default exist under the Agreement, from the Borrower to the Trustee and the Issuer, with the consent of the Issuer; and (iii) for cause by the Issuer. (Sections 602, 604 and 703)

Tax Matters

The Borrower 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 Borrower 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 Borrower.

The Borrower 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.

Partly in furtherance of the foregoing, the Issuer and the Borrower are entering into the Tax Certificate with respect to matters of federal tax law pertaining to the Bonds issued under the Agreement. (Section 901)

Maintenance of Corporate Existence

The Borrower shall maintain its existence as a nonprofit corporation qualified to do business in 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 upon satisfaction of the conditions set forth in the Agreement which include (a) that each of the surviving, resulting or transferee entity or entities meet certain requirements set forth in the Agreement as to its nonprofit, tax-exempt status, (b) that the transaction not result in a conflict, breach or default as referred to in the Agreement, and (c) that the surviving, resulting or transferee entity or entities each, if not the Borrower, (i) assumes by written agreement with the Issuer and the Trustee all the obligations of the Borrower under the Agreement, (ii) notifies the Issuer and the Trustee of any change in the name of the Borrower, and (iii) executes, delivers, registers, records and files such other instruments as the Issuer or the Trustee may reasonably require to confirm, perfect or maintain the security granted under the Agreement. (Section 905)

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 of a book entry system of registration for the Bonds through a securities depository, (c) to add to the covenants and agreements of the Borrower or to surrender or limit any right or power of the Borrower, or (d) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds.

Except as provided in the foregoing paragraph, the Agreement may be amended only with the written consent of the registered owners of at least a majority in principal amount of the Outstanding Bonds; provided, however, that 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 redeemable other than in accordance with its terms, (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. When the Trustee determines that the requisite number of consents have been obtained for an amendment which requires Bondowner consents, it shall, within ninety (90) days, file a certificate to that effect in its records and mail notice to the Bondowners. (Section 1001)

Defeasance

When there are in the Debt Service Fund and the Redemption Fund sufficient funds, or Government or Equivalent Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Bonds in full, and when all the rights of the Issuer and Trustee have been provided for, upon written notice from the Borrower to the Issuer and 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, and the Issuer 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 Issuer 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. Prior to executing any instruments pursuant to the Agreement, the Trustee shall be entitled to receive either: (1) a verification report of an independent certified public accountant or similar expert to the effect that such funds or Government or Equivalent Obligations, together with earning thereon, will be sufficient to pay interest and principal on the Bonds to redemption or maturity; or (2) an opinion of counsel to the effect that all conditions precedent to the defeasance have been complied with. Upon defeasance of the Agreement, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose subject to the requirements of the Agreement, and moneys held for defeasance shall be invested only as provided 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 Issuer and the Trustee and after allowance for payment to the Rebate Fund, be distributed to the Borrower upon such indemnification, if any, as the Issuer or the Trustee may reasonably require. (Section 202)

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Issue]

Massachusetts Development Finance Agency
160 Federal Street
Boston, Massachusetts 02110

$601,050,000
Massachusetts Development Finance Agency
Revenue Bonds, Harvard University Issue, Series 2010B
(the "Bonds")
Dated their Date of Delivery

We have acted as bond counsel in connection with the issuance by the Massachusetts Development Finance Agency (the "Issuer") 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 November 1, 2010 (the "Agreement"), among the Issuer, President and Fellows of Harvard College (the "Borrower") 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 Issuer and the Borrower contained in the Agreement and in the certified proceedings and other certifications of public officials furnished to us, and certifications of officials of the Borrower 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 Borrower pursuant to the Agreement. Under the Agreement, the Borrower has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and interest on the Bonds. Such payments and other moneys payable to the Issuer or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Issuer under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Issuer as security for the Bonds. The Bonds are payable solely from the Revenues.

APPENDIX D

We express no opinion with respect to compliance by the Borrower 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.

Reference is made to an opinion of even date of Ropes & Gray LLP, counsel to the Borrower, with respect to, among other matters, the corporate existence of the Borrower, the power of the Borrower to carry out the Project, the power of the Borrower to enter into and perform its obligations under the Agreement, the authorization, execution and delivery of the Agreement by the Borrower, and the current qualification of the Borrower 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 Borrower 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 Borrower that do not constitute unrelated trades or businesses of the Borrower 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 Issuer 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 Issuer and is a valid and binding obligation of the Issuer enforceable against the Issuer. As provided in Chapter 23G of the General Laws of The Commonwealth of Massachusetts, the Agreement creates a valid lien on the Revenues and on the rights of the Issuer or the Trustee on behalf of the Issuer 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 Issuer and are valid and binding special obligations of the Issuer, payable solely from the Revenues.

4. Interest on the Bonds (including any original issue discount properly allocable to the owners thereof) 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. We express 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 Issuer and the Borrower with all requirements of the Code, the Internal Revenue Code of 1954, as amended, and the Tax Reform Act of 1986 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 Borrower and, to the

extent necessary, the Issuer have covenanted in the Agreement to comply with all such requirements. Failure by the Issuer or the Borrower 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 is 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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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the President and Fellows of Harvard College (the "Institution") and The Bank of New York Mellon Trust Company, N.A. (the "Trustee") in connection with the issuance of $601,050,000 Massachusetts Development Finance Agency Revenue Bonds, Harvard University Issue, Series 2010B (the "Bonds"). The Bonds are being issued pursuant to a Loan and Trust Agreement dated as of November 1, 2010 among the Massachusetts Development Finance Agency (the "Issuer"), the Trustee and the Institution (the "Agreement"), and the proceeds of the Bonds are being loaned by the Issuer 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 Underwriters (defined below) in complying with the Rule (defined below). The Institution and the Trustee acknowledge that the Issuer 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" 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 Issuer 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 any of the original underwriters 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) The Dissemination Agent, not later than 180 days after the end of each fiscal year (the "Filing Deadline"), shall provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than five (5) 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 Issuer and the Trustee.

(b) The Dissemination Agent shall file a report with the Institution, the Issuer and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement and 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 Agency’s Official Statement dated November 10, 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 Agency’s Official Statement dated November 10, 2010.

In the event the Borrower’s audited financial statements provided pursuant to Section 3 of this Disclosure Agreement contain any of the information described in clauses (i) through (iii) above, the requirement of this Section 4 shall be deemed to be satisfied with respect to including such information in the Borrower’s Annual Report.

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 (i) are available to the public on the MSRB Internet Web site, or (ii) have been filed with the Securities and Exchange Commission. 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, if material.

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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.

8. Bond calls, if material, and tender offers.

9. Defeasance of the Bonds or any portion thereof.

10. Release, substitution or sale of property securing repayment of the Bonds, if material.

11. Rating changes.

12. Bankruptcy, insolvency, receivership or similar event of the Institution.[*]

13. The consummation of a merger, consolidation, or acquisition involving the Institution or the sale of all or substantially all of the assets of the Institution, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event, the Institution shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file or cause to be filed a notice of such occurrence with the MSRB. The Institution shall provide a copy of each such notice to the Issuer 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

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[*] As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Institution in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Institution, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Institution.

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 written notice to the Trustee and the Issuer 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 Issuer, 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 Issuer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Institution and the Trustee may amend this Disclosure Agreement (and, subject to the last sentence of this Section 9, 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

Bond, 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. In the event that the Trustee serves as Dissemination Agent, the same privileges and protections afforded to the Trustee under Article VI of the Agreement shall be equally applicable to the Trustee in the performance of its duties as Dissemination Agent hereunder. 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. Neither the Trustee nor the Dissemination Agent (if other than the Institution) shall have a duty to review the Annual Report, nor shall they be deemed to have notice of the contents of such Annual Report or a default based on such content, nor shall they have a duty to verify the accuracy of such Annual Report.

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 Underwriters 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.

SECTION 15. Notices. Unless otherwise expressly provided, all notices to the Issuer, the Institution, the Trustee and the Dissemination Agent shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or delivered or sent by facsimile during business hours to such parties at the address specified in Section 1003 of the Agreement or, as to all of the foregoing, to such other address as the addressee shall have indicated by prior written notice to the party giving notice.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page intentionally left blank]

SECTION 17. Governing Law. This instrument shall be governed by the laws of the Commonwealth of Massachusetts.

Date: November __, 2010

PRESIDENT AND FELLOWS OF
HARVARD COLLEGE

By ________________________________
Authorized Officer

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

By ________________________________
Authorized Officer

EXHIBIT A
NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Massachusetts Development Finance Agency

Name of Bond Issue: Revenue Bonds, Harvard University Issue, Series 2010B

Name of Obligated Person: President and Fellows of Harvard College

Date of Issuance: November __, 2010

NOTICE IS HEREBY GIVEN that the 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 November __, 2010 between the Institution and The Bank of New York Mellon Trust Company, N.A.

Dated: ___________________

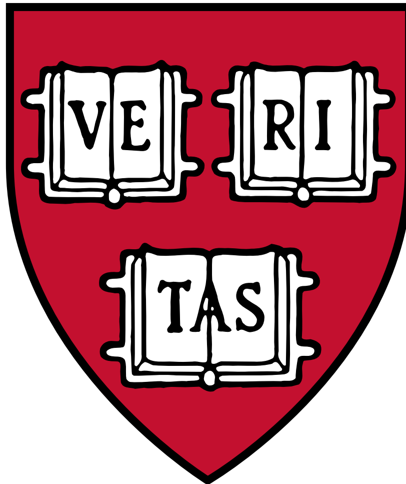
THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. on behalf of PRESIDENT AND FELLOWS OF HARVARD COLLEGE

cc: Institution

EXHIBIT B

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

Municipal Securities Rulemaking Board
http://emma.msrb.org



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