

NEW ISSUE – BOOK-ENTRY ONLY



\$300,000,000
PRESIDENT AND FELLOWS OF HARVARD COLLEGE
Taxable Bonds, Series 2010C

4.875% Bonds due October 15, 2040

Issue price: 99.333%

CUSIP: 740816AH6**

Interest payable: April 15 and October 15

Dated: Date of Delivery

The President and Fellows of Harvard College Taxable Bonds, Series 2010C (the “Bonds”) will be issued pursuant to the terms of an Indenture of Trust, dated as of November 1, 2010 (the “Indenture”), by and between President and Fellows of Harvard College (the “Institution”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). The proceeds of the Bonds will be used by the Institution to refinance a portion of the Institution’s commercial paper program, to pay costs of issuance and to fund other eligible corporate activities.

The Bonds will be issued in fully registered form in denominations of \$1,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in principal amounts of \$1,000 and any integral multiple thereof. Purchasers of the Bonds will not receive physical certificates (except under certain circumstances described in the Indenture) representing their ownership interests in the Bonds purchased.

Interest on the Bonds will be payable on April 15 and October 15 of each year, commencing on April 15, 2011. So long as the Bonds are held by DTC, the principal or Make-Whole Redemption Price (as defined herein) of and interest on the Bonds will be payable by wire transfer to DTC, which in turn is required to remit such principal or Make-Whole Redemption Price and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described in “BOOK-ENTRY ONLY SYSTEM” herein.

The Bonds are subject to optional redemption prior to their stated maturity as described herein. See “THE BONDS – Redemption” herein.

Interest on and profit, if any, on the sale of the Bonds are not excludable from gross income for federal, state or local income tax purposes. See “CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS” herein.

The Bonds constitute unsecured general obligations of the Institution. The Institution has other unsecured general obligations outstanding. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE INSTITUTION” - “Additional Information” and APPENDIX B – “HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010” attached hereto. Moreover, the Institution is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See “SECURITY FOR THE BONDS” herein.

This cover page contains certain information for quick reference only. It is not intended to be a summary of this issue. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriters, when, as and if issued by the Institution and accepted by the Underwriters, subject to the approval of legality by Ropes & Gray LLP, Boston, Massachusetts, counsel to the Institution. In addition, certain other legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York. It is expected that the Bonds will be available for delivery to DTC in New York, New York on or about November 10, 2010.

Goldman, Sachs & Co.
Credit Agricole CIB

Deutsche Bank Securities

Citi
HSBC

November 4, 2010

** 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 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.

TABLE OF CONTENTS

	<u>Page</u>
GENERAL INFORMATION.....	i
SUMMARY OF THE OFFERING	ii
INTRODUCTION.....	1
Purpose of the Bonds and the Plan of Finance	1
The Institution	1
The Bonds	1
Security for the Bonds.....	2
Additional Bonds.....	2
Outstanding Indebtedness.....	2
Redemption	2
Book-Entry Only System	2
Certain Information Related to this Offering Memorandum	3
PLAN OF FINANCE	3
THE BONDS.....	3
Description of the Bonds	3
Redemption	4
Partial Redemption of Bonds	5
Notice of Redemption	5
Effect of Redemption	6
Selection of Bonds for Redemption within a Maturity.....	6
BOOK-ENTRY ONLY SYSTEM	7
General	7
Certificated Bonds.....	10
SECURITY FOR THE BONDS.....	10
General	10
Certain Funds and Accounts Established by the Indenture	11
CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS	12
UNDERWRITING	16
CONTINUING DISCLOSURE.....	16
APPROVAL OF LEGALITY	17
FINANCIAL STATEMENTS.....	17
INDEPENDENT ACCOUNTANTS.....	17
RATINGS.....	17
MISCELLANEOUS.....	17
CERTAIN INFORMATION CONCERNING THE INSTITUTION	APPENDIX A
HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010	APPENDIX B
SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE	APPENDIX C
PROPOSED FORM OF OPINION OF COUNSEL TO THE INSTITUTION.....	APPENDIX D

GENERAL INFORMATION

This Offering Memorandum does not constitute an offer to sell the Bonds in any jurisdiction in which or to any person to whom it is unlawful to make such an offer. No dealer, salesperson or other person has been authorized by Goldman, Sachs & Co., Citigroup Global Markets Inc., Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc. or HSBC Securities (USA) Inc. (the “Underwriters”) or the Institution to give any information or to make any representations, other than those contained herein, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds, or determined that this Offering Memorandum is accurate or complete. Any representation to the contrary is a criminal offense. The Bonds have not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”), and are being issued in reliance on an exemption or on exemptions contained therein. The Bonds are not exempt in every jurisdiction in the United States; some jurisdictions’ securities laws (the “blue sky laws”) may require a filing and a fee to secure the Bonds’ exemption from registration.

The distribution of this Offering Memorandum and the offer or sale of Bonds may be restricted by law in certain jurisdictions. Neither the Institution nor the Underwriters represent that this Offering Memorandum may be lawfully distributed, or that any Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Institution or the Underwriters which would permit a public offering of any of the Bonds or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. To be clear, action may be required to secure exemptions from the blue sky registration requirements either for the primary distributions or any secondary sales that may occur. Accordingly, none of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

All information set forth herein has been obtained from the Institution and other sources. Estimates and opinions are included and should not be interpreted as statements of fact. Summaries of documents do not purport to be complete statements of their provisions. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Institution since the date hereof.

Certain statements included or incorporated by reference in this Offering Memorandum constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” “intend,” “projection” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in APPENDIX A – “CERTAIN INFORMATION CONCERNING THE INSTITUTION” and APPENDIX B – “HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010.” A number of important factors, including factors affecting the Institution’s financial condition and factors which are otherwise unrelated thereto, could cause actual results to differ materially from those stated in such forward-looking statements. THE INSTITUTION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT 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.

SUMMARY OF THE OFFERING

Issuer	President and Fellows of Harvard College
Securities Offered	\$300,000,000 4.875% Taxable Bonds, Series 2010C Bonds due October 15, 2040
Interest Accrual Dates	Interest will accrue from the Date of Issuance
Interest Payment Dates	April 15 and October 15 of each year, commencing April 15, 2011
Redemption	The Bonds are subject to optional redemption at the Make-Whole Redemption Price as discussed more fully herein. See "THE BONDS – Redemption."
Date of Issuance	November 10, 2010
Authorized Denominations	\$1,000 and any integral multiple thereof
Form and Depository	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds	The Institution will use the net proceeds of the Bonds to refinance a portion of the Institution's commercial paper program, to pay costs of issuance and to fund other eligible corporate activities. See "PLAN OF FINANCE" herein.
Ratings	Moody's: Aaa S&P: AAA

OFFERING MEMORANDUM

Relating to

\$300,000,000

PRESIDENT AND FELLOWS OF HARVARD COLLEGE TAXABLE BONDS, SERIES 2010C

INTRODUCTION

The purpose of this Offering Memorandum, which includes the cover page, the table of contents and appendices, is to provide certain information concerning the sale and delivery by President and Fellows of Harvard College (the "Institution") of its \$300,000,000 aggregate principal amount of the President and Fellows of Harvard College Taxable Bonds, Series 2010C (the "Bonds"). This Introduction contains only a brief summary of certain of the terms of the Bonds being offered and a brief description of the Offering Memorandum. All statements contained in this Introduction are qualified in their entirety by reference to the entire Offering Memorandum.

Purpose of the Bonds and the Plan of Finance

The proceeds of the Bonds will be used by the Institution to refinance a portion of the Institution's commercial paper program, to pay costs of issuance and to fund other eligible corporate activities. See "PLAN OF FINANCE" herein.

The Institution

The Institution is an educational corporation existing under the laws of The Commonwealth of Massachusetts. Important information on the financial condition of the Institution is set forth in APPENDIX A – "CERTAIN INFORMATION CONCERNING THE INSTITUTION" and APPENDIX B – "HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010" attached hereto, which both should be read in their entirety.

The Bonds

The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2010 (the "Indenture"), by and between the Institution and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Pursuant to the Indenture, on each Payment Date, until the principal of and interest on the Bonds shall have been paid or provision for such payment shall have been made as provided in the Indenture, the Institution will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of or interest on the Bonds. See "THE BONDS" herein.

Security for the Bonds

The Bonds constitute unsecured general obligations of the Institution. The Institution has other unsecured general obligations outstanding. See “Outstanding Indebtedness” below. Moreover, the Institution is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See “SECURITY FOR THE BONDS” herein.

Additional Bonds

The Institution may, from time to time, without the consent of the holders of the Bonds, issue additional bonds under the Indenture in addition to the Bonds (the “Additional Bonds”). If issued, the Additional Bonds will become part of the same series as the Bonds being offered by this Offering Memorandum and will have the same interest rate, redemption provisions, maturity date and CUSIP number as the Bonds.

Outstanding Indebtedness

As of June 30, 2010, the outstanding indebtedness of the Institution, including long-term debt and commercial paper debt, totaled approximately \$6.3 billion. Upon delivery of the Bonds and the expected issuance of \$740,970,000* principal amount of tax-exempt Revenue Bonds, Series 2010B by the Massachusetts Development Finance Agency (the “Series 2010B Bonds”) and after taking into account the indebtedness to be refinanced with the proceeds of the Bonds and the Series 2010B Bonds, the total outstanding indebtedness is expected to be approximately \$6.6 billion. For additional information regarding the outstanding indebtedness of the Institution, see APPENDIX A – “CERTAIN INFORMATION CONCERNING THE INSTITUTION – “Additional Information” and APPENDIX B – “HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2010” attached hereto.

Redemption

The Bonds are subject to optional redemption by the Institution prior to maturity at the Make-Whole Redemption Price described herein. See “THE BONDS – Redemption” herein.

Book-Entry Only System

When delivered, the Bonds will be registered in the name of Cede & Co., the nominee of The Depository Trust Company (“DTC”). DTC will act as the securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of certificated securities (except under certain circumstances described in the Indenture). Payment of the principal or Make-Whole Redemption Price of and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. In addition, so long as Cede & Co. is the registered owner of the Bonds, the right of any Beneficial

* Preliminary, subject to change.

Owner to receive payment for any Bond will be based only upon and subject to the procedures and limitations of the DTC book-entry system. See "BOOK-ENTRY ONLY SYSTEM" herein.

Certain Information Related to this Offering Memorandum

The descriptions herein of the Indenture and other documents relating to the Bonds do not purport to be complete and are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by the form thereof and the information with respect thereto included in such documents. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto for a brief summary of the Indenture, including descriptions of certain duties of the Trustee, rights and remedies of the Trustee and the Bondholders upon an Event of Default, and provisions relating to amendments of the Indenture and procedures for defeasance of the Bonds.

All capitalized terms used in this Offering Memorandum and not otherwise defined herein have the same meanings as in the Indenture. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" attached hereto for definitions of certain words and terms used but not otherwise defined herein.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither delivery of this Offering Memorandum nor any sale made hereunder nor any future use of this Offering Memorandum will, under any circumstances, create any implication that there has been no change in the affairs of the Institution.

PLAN OF FINANCE

The proceeds of the Bonds will be applied to refinance approximately \$169,885,350 of the Institution's outstanding taxable commercial paper, to pay costs of issuance and to fund other eligible corporate activities. For additional information regarding the outstanding indebtedness of the Institution, see APPENDIX A – "CERTAIN INFORMATION CONCERNING THE INSTITUTION" – Additional Information" and APPENDIX B – "HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010" attached hereto.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of their original issuance and will bear interest and mature (subject to prior redemption) as shown on the front cover page hereof. The Bonds will be delivered in the form of fully registered Bonds in denominations of \$1,000 and any integral multiple thereof. The Bonds will be registered initially in the name of "Cede & Co.," as nominee of the Securities Depository and will be evidenced by one Bond in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portions thereof, may not thereafter be transferred except as set forth in the Indenture. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" and APPENDIX F – "BOOK-ENTRY ONLY SYSTEM" attached hereto.

Interest on the Bonds will be payable on April 15 and October 15 of each year (each, an "Interest Payment Date"), commencing on April 15, 2011, and will be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

The principal and Make-Whole Redemption Price of the Bonds will be payable by check in lawful money of the United States of America at the Designated Office of the Trustee.

Interest on the Bonds will be payable from the later of (i) the date of issuance and (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for. Payment of the interest on each Interest Payment Date will be made to the Person whose name appears on the bond registration books of the Trustee as the Holder thereof as of the close of business on the Record Date for each Interest Payment Date, such interest to be paid by check mailed by first class mail to such Holder at its address as it appears on such registration books, or, upon the written request of any Holder of at least \$1,000,000 in aggregate principal amount of Bonds, submitted to the Trustee at least one (1) Business Day prior to the Record Date, by wire transfer in immediately available funds to an account within the United States designated by such Holder. Notwithstanding the foregoing, as long as Cede & Co. is the Holder of all or part of the Bonds in Book-Entry Form, said principal, Make-Whole Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

Redemption

The Bonds will be redeemable in whole or in part (in Authorized Denominations), at the Institution's option at any time and from time to time, at a redemption price equal to the greater of (i) 100% of the principal amount of any notes being redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 15 basis points (the "Make-Whole Redemption Price"), plus in each case accrued and unpaid interest thereon to, but excluding, the date of redemption. See APPENDIX C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE."

"Comparable Treasury Issue" means the United States Treasury security or securities selected by a Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

"Comparable Treasury Price" means, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the Institution.

"Reference Treasury Dealer" means each of Citigroup Global Markets Inc., Goldman, Sachs & Co. and Deutsche Bank Securities Inc., or their respective affiliates which are primary U.S. Government securities dealers, and their respective successors; provided that if Citigroup Global Markets Inc., Goldman, Sachs & Co. or Deutsche Bank Securities Inc. or their respective affiliates shall cease to be a primary U.S. Government

securities dealer in The City of New York (a "Primary Treasury Dealer"), the Institution shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Partial Redemption of Bonds

Upon surrender of any Bond redeemed in part only, the Institution will execute (but need not prepare) and the Trustee will prepare or cause to be prepared, authenticate and deliver to the Holder thereof, at the expense of the Institution, a new Bond or Bonds of Authorized Denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Notice of Redemption

Notice of redemption will be mailed by the Trustee by first class mail, not less than thirty (30) days, nor more than sixty (60) days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. If the Bonds are no longer held by the Securities Depository or its successor or substitute, the Trustee shall also give notice of redemption by overnight mail to such securities depositories and/or securities information services as shall be designated in a certificate of the Institution. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee) the maturity (including CUSIP number, if any), and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Bonds the Make-Whole Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered.

Failure by the Trustee to give notice as described above to any one or more of the securities information services or depositories designated by the Institution, or the insufficiency of any such notice will not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption to any one or more of the respective Holders of any Bonds

designated for redemption will not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed.

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

Effect of Redemption

Notice of redemption having been duly given as provided in the Indenture and as described above, and moneys for payment of the Make-Whole Redemption Price of, together with interest accrued to the date fixed for redemption on, the Bonds (or portion thereof) so called for redemption being held by the Trustee, on the date fixed for redemption designated in such notice, the Bonds (or portion thereof) so called for redemption shall become due and payable at the Make-Whole Redemption Price specified in such notice and interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portion thereof) will cease to be entitled to any benefit or security under the Indenture, and the Holders of said Bonds will have no rights in respect thereof except to receive payment of said Make-Whole Redemption Price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

Selection of Bonds for Redemption within a Maturity

Subject to the provisions described under "BOOK-ENTRY ONLY SYSTEM", whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for prior redemption, the particular Bonds or portions thereof to be redeemed shall be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Institution's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, neither the Institution nor the Underwriter can provide any assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-through distribution of principal basis as discussed above, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot.

BOOK-ENTRY ONLY SYSTEM

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

The information set forth in this section under the subheading “General” has been obtained from sources that the Institution and the Trustee believe to be reliable, but the Institution and Trustee take no responsibility for the accuracy thereof.

NEITHER THE INSTITUTION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

General

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

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

available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants,” and together with Direct Participants, “Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Institution 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).

Payments of principal, Make-Whole Redemption Price 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 Institution 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, nor its nominee, the Trustee or the Institution, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Make-Whole Redemption Price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Institution 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 Institution 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 Institution 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 Institution and the Underwriters believe to be reliable, but 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. NEITHER THE INSTITUTION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds 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 Institution, 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 Institution 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 Institution or restricted registration is no longer in effect, Bond certificates will be delivered.

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

Certificated Bonds

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Institution or the Trustee. In addition, the Institution 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 Indenture and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon assignment in form satisfactory to the Trustee. For every exchange or registration of transfer of the Bonds, the 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, and the Trustee may also require the Bondowners requesting such exchange to pay a reasonable sum to cover any expenses incurred by the Institution in connection with such exchange. The Trustee will not be required to exchange (i) any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption or (ii) any Bond called for redemption.

SECURITY FOR THE BONDS

General

The Indenture provides that, on or before each Payment Date, the Institution will pay the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on the Bonds. In addition, the Indenture provides that each such payment made will at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date, the amounts held by the Trustee in the accounts within the Bond Fund (as described below)

are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the Institution is required to pay such deficiency to the Trustee. Upon the receipt thereof, the Trustee will deposit all payments received from the Institution into certain funds and accounts established pursuant to the Indenture. See “Certain Funds and Accounts Established by the Indenture” below.

The Bonds constitute unsecured general obligations of the Institution. The Bonds are not secured by a reserve fund, mortgage lien or security interest on or in any funds or other assets of the Institution, except for funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture. Pursuant to the Indenture, the Project Fund is held by the Institution, rather than the Trustee, and, as described above, the Institution is not required to deposit with the Trustee amounts necessary to pay the principal of and interest on the Bonds until the Payment Date on which such amounts become due and payable; therefore, the funds held from time to time by the Trustee for the benefit of the Holders of the Bonds under the Indenture are expected to be minimal. Amounts held by the Institution in the Project Fund are not subject to any lien or charge in favor of the Holders of the Bonds and do not constitute security for the Bonds.

The Indenture does not contain any financial covenants limiting the ability of the Institution to incur indebtedness, encumber or dispose of its property or merge with any other entity, or any covenants. Further, the Institution is not required by the Indenture to produce revenues at any specified level or to obtain any insurance with respect to its property or operations.

The Institution has other unsecured general obligations outstanding. See APPENDIX A – “CERTAIN INFORMATION CONCERNING THE INSTITUTION” –Additional Indebtedness” and “APPENDIX B – “HARVARD UNIVERSITY FINACIAL REPORT - FISCAL YEAR 2010” attached hereto. Moreover, the Institution is not restricted by the Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if issued, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds.

Certain Funds and Accounts Established by the Indenture

Indenture Fund. Under the Indenture, the Trustee has established for the sole benefit of the Bondholders, a master fund referred to as the “Indenture Fund,” containing the Bond Fund and the Redemption Fund and each of the funds and accounts contained therein. The Institution has pledged, assigned and transferred the Indenture Fund and all amounts held therein to the Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Indenture Fund and all amounts on deposit therein constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and provisions of the Indenture. Due to the timing of payments by the Institution to the Trustee, in general there is not expected to be any money in the Indenture Funds except for a brief period of time on the Interest Payment Dates.

Project Fund. The Indenture establishes a “Project Fund” to be held by the Institution. The moneys in the Project Fund will be used by the Institution to refinance a portion of the Institution’s commercial paper programs, to pay costs of issuance and to fund other eligible corporate activities. At the option of the Institution, any remaining balance in the Project Fund

may be transferred to the Trustee for deposit in the Indenture Fund. Amounts held by the Institution in the Project Fund are not subject to any lien or charge in favor of the Holders of the Bonds and do not constitute security for the Bonds.

For information on other funds and accounts established by the Indenture, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE” attached hereto.

CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Bonds. The discussion below is based upon current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), current final, temporary and proposed Treasury regulations, judicial authority and current administrative rulings and pronouncements of the Internal Revenue Service (the “IRS”). There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS has been, or is expected to be, sought on the issues discussed herein. Legislative, judicial, or administrative changes or interpretations may occur that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may or may not be retroactive and could affect the tax consequences discussed below.

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE IRS, YOU ARE HEREBY NOTIFIED THAT ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED HEREIN (I) IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (II) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE CODE. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The summary is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of Bonds and does not address U.S. federal gift or (for U.S. Holders) estate tax consequences or alternative minimum, foreign, state, local or other tax consequences. This summary does not purport to address special classes of taxpayers (such as S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the United States, broker-dealers, traders in securities and tax-exempt organizations) that are subject to special treatment under the federal income tax laws, or persons that hold Bonds that are a hedge against, or that are hedged against, currency risk or that are part of a hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the U.S. dollar. This summary also does not address the tax consequences to an owner of Bonds held through a partnership or other pass-through entity treated as a partnership for U.S. federal income tax purposes. In addition, this discussion is limited to persons purchasing the Bonds for cash in this offering at their “issue price” within the meaning of Section 1273 of the Code (i.e., the first price at which a substantial amount of Bonds are sold to the public for cash), and it does not address the tax consequences to holders that purchase the Bonds after their original issuance. This discussion assumes that the Bonds will be held as capital assets within the meaning of section 1221 of the Code.

As used herein, the term “U.S. Holder” means a beneficial owner of Bonds that is (i) an individual citizen or resident of the United States for U.S. federal income tax purposes, (ii) a corporation (or other entity classified as a corporation for U.S. federal tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a U.S. court can exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of the Code) has the authority to control all of the substantial decisions of such trust or (b) the trust has made a valid election under applicable Treasury regulations to be treated as a United States person (within the meaning of the Code). As used herein, the term “Non-U.S. Holder” means a beneficial owner of Bonds that is not a U.S. Holder.

BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, PROSPECTIVE HOLDERS OF THE BONDS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THEIR PARTICULAR TAX SITUATIONS AND AS TO ANY FEDERAL, FOREIGN, STATE, LOCAL OR OTHER TAX CONSIDERATIONS (INCLUDING ANY POSSIBLE CHANGES IN TAX LAW) AFFECTING THE PURCHASE, HOLDING AND DISPOSITION OF THE BONDS.

Certain U.S. Federal Income Tax Consequences to U.S. Holders

This section describes certain U.S. federal income tax consequences to U.S. Holders. Non-U.S. Holders should see the discussion under the heading “—Certain Federal Income Tax Consequences to Non-U.S. Holders” for a discussion of certain tax consequences applicable to them.

Interest. Interest on the Bonds will generally be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

It is expected that the Bonds will not be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated Make-Whole Redemption Price at maturity of the Bonds will not exceed their issue price, or because any such excess should only be a de minimis amount (as determined for tax purposes). *De minimis* OID is included in the income of a U.S. Holder as stated principal payments are made, and is treated as an amount received in retirement of a Bond. If, contrary to expectation, the Bonds are issued at a discount that gives rise to OID, a U.S. Holder may be required to include such OID in gross income in advance of the receipt of cash associated with such income.

Disposition of the Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption (including pursuant to an offer by the Institution) or other disposition of a Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of Bonds will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bonds which will be taxed in the manner described above under “Interest”) and (ii) the U.S. Holder’s adjusted tax basis in the Bonds (generally, the purchase price paid by the U.S. Holder for the Bonds). Any such gain or loss generally will be long-term capital

gain or loss, provided the Bonds have been held for more than one year at the time of the disposition. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding. The Institution or its paying agent, if any (the “payor”) must report annually to the IRS and to each U.S. Holder any interest that is payable to the U.S. Holder, subject to certain exceptions. Under section 3406 of the Code and applicable Treasury Regulations, a non-corporate U.S. Holder of the Bonds may be subject to backup withholding with respect to “reportable payments,” which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption or retirement of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a taxpayer identification number (“TIN”) to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a “notified payee underreporting” described in section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules do not constitute an additional tax and will be credited against the U.S. Holder’s federal income tax liabilities (and possibly result in a refund), so long as the required information is timely provided to the IRS.

Certain U.S. Federal Income and Estate Tax Consequences to Non-U.S. Holders

This section describes certain U.S. federal income and estate tax consequences to Non-U.S. Holders.

Interest. If, under the Code, interest on the Bonds is “effectively connected with the conduct of a trade or business within the United States” by a Non-U.S. Holder, such interest will be subject to U.S. federal income tax in a similar manner as if the Bonds were held by a U.S. Holder, as described above, and in the case of Non-U.S. Holders that are corporations may be subject to U.S. branch profits tax at a rate of up to 30%, unless an applicable tax treaty provides otherwise. Such Non-U.S. Holder will not be subject to withholding taxes, however, if it provides a properly executed Form W-8ECI to the payor.

Interest on the Bonds held by other Non-U.S. Holders may be subject to withholding taxes of up to 30% of each payment made to the Non-U.S. Holders unless the “portfolio interest” exemption applies. In general, interest paid on the Bonds to a Non-U.S. Holder may qualify for the portfolio interest exemption, and thus will not be subject to U.S. federal withholding tax, if (1) such Non-U.S. Holder is not a “controlled foreign corporation” (within the meaning of section 957 of the Code) related, directly or indirectly, to the Institution; and (2) either (A) the payor receives from the Non-U.S. Holder who is the beneficial owner of the obligation a statement signed by such person under penalties of perjury, on IRS Form W-8BEN (or successor form), certifying that such owner is not a U.S. Holder and providing such owner’s name and address or (B) a securities clearing organization, bank or other financial institution that holds the Bonds on behalf of such Non-U.S. Holder in the ordinary course of its trade or business certifies to the payor, under penalties of perjury, that such an IRS Form W-8BEN (or a successor form) has been received from the beneficial owner by it and furnishes the payor with a copy thereof. Alternative methods may be applicable for satisfying the certification requirement described above. Foreign trusts and their beneficiaries are subject to special rules, and such persons should consult their own tax advisors regarding the certification requirements.

If a Non-U.S. Holder does not claim, or does not qualify for, the benefit of the portfolio interest exemption, the Non-U.S. Holder may be subject to a 30% withholding tax on interest payments on the Bonds. However, the Non-U.S. Holder may be able to claim the benefit of a reduced withholding tax rate under an applicable income tax treaty between the Non-U.S. Holder's country of residence and the U.S. Non-U.S. Holders are urged to consult their own tax advisors regarding their eligibility for treaty benefits. The required information for claiming treaty benefits is generally submitted on Form W-8BEN. In addition, a Non-U.S. Holder may under certain circumstances be required to obtain a U.S. taxpayer identification number.

Disposition of the Bonds. A Non-U.S. Holder will generally not be subject to U.S. federal income tax or withholding tax on gain recognized on a sale, exchange, redemption or other disposition of a Bond. (Such gain does not include proceeds attributable to accrued but unpaid interest on the Bonds, which will be treated as interest). A Non-U.S. Holder may, however, be subject to U.S. federal income tax on such gain if: (1) the Non-U.S. Holder is a nonresident alien individual who was present in the United States for 183 days or more in the taxable year of the disposition; or (2) the gain is effectively connected with the conduct of a U.S. trade or business, as provided by applicable U.S. tax rules (in which case the U.S. branch profits tax may also apply), unless an applicable tax treaty provides otherwise.

Information Reporting and Backup Withholding. The payor must report annually to the IRS and to each Non-U.S. Holder any interest that is subject to U.S. withholding taxes or that is exempt from U.S. withholding taxes pursuant to an income tax treaty or certain provisions of the Code. Copies of these information returns may also be made available under the provisions of a specific tax treaty or agreement with the tax authorities of the country in which the Non-U.S. Holder resides.

A Non-U.S. Holder generally will not be subject to backup withholding with respect to payments of interest on the Bonds as long as the Non-U.S. Holder (i) has furnished to the payor a valid IRS Form W-8BEN certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the payor other documentation upon which it may rely to treat the payments as made to a non-U.S. person in accordance with Treasury regulations, or (iii) otherwise establishes an exemption. A Non-U.S. Holder may be subject to information reporting and/or backup withholding on a sale of the Bonds through the United States office of a broker and may be subject to information reporting (but generally not backup withholding) on a sale of the Bonds through a foreign office of a broker that has certain connections to the United States, unless the Non-U.S. Holder provides the certification described above or otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

Amounts withheld under the backup withholding rules may be refunded or credited against the Non-U.S. Holder's U.S. federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

U.S. Federal Estate Tax. A Bond held or beneficially owned by an individual who, for estate tax purposes, is not a citizen or resident of the United States at the time of death will not be includable in the decedent's gross estate for U.S. estate tax purposes, provided that, at the time of death, payments with respect to such Bond would not have been effectively connected with the

conduct by such individual of a trade or business in the United States. In addition, the U.S. estate tax may not apply with respect to such Bond under the terms of an applicable estate tax treaty.

THE FOREGOING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF BONDS IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF BONDS, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

UNDERWRITING

The Institution has entered into a purchase contract with the Underwriters listed on the cover hereof for whom Goldman, Sachs & Co. and Citigroup Global Markets Inc. are acting as co-representatives, and the Underwriters have agreed to purchase the Bonds from the Institution at an aggregate discount of \$2,625,000 from the public offering price set forth on the cover page hereof.

The purchase contract pursuant to which the Bonds are being sold provides that the Underwriters will purchase not less than all of the Bonds. The Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Bonds to certain dealers and others at a price lower than the initial offering price. The offering price of Bonds may be changed from time to time 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 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 Institution.

CONTINUING DISCLOSURE

The Institution covenants in the Indenture to furnish to the Trustee copies of its audited financial statements within one hundred eighty (180) days after the close of each of its fiscal years. Except for providing such annual audited financial statements, the Institution has not undertaken either to supplement or update the information included in this Offering Memorandum.

The Institution has entered into continuing disclosure undertakings (the “Continuing Disclosure Undertakings”) in connection with tax-exempt revenue bonds issued for the benefit of the Institution (the “Tax-Exempt Bonds”). See APPENDIX B – “HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010.” Holders and prospective purchasers of the Bonds may obtain copies of the information provided by the Institution under those Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”). Each Continuing Disclosure Undertaking terminates when the related tax-exempt revenue bonds are paid or deemed paid in full.

APPROVAL OF LEGALITY

Legal matters incident to validity of the Bonds and certain other matters are subject to the approving opinion of Ropes & Gray LLP, counsel to the Institution. The proposed form of opinion of counsel to the Institution relating to the validity of the issuance of the Bonds and certain other matters is attached hereto as Appendix D. In addition, certain other legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP.

FINANCIAL STATEMENTS

The financial statements of the Institution presented in Appendix B present the financial position, changes in net assets and cash flows for the year ended June 30, 2010, with summarized comparative financial information as of and for the year ended June 30, 2009. These financial statements should be read in their entirety.

INDEPENDENT ACCOUNTANTS

The financial statements of the Institution as of June 30, 2010 with summarized comparative financial information as of and for the year ended June 30, 2009, included in Appendix B to this Offering Memorandum, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix B hereto.

RATINGS

Moody’s assigned a rating of “Aaa” and Standard & Poor’s assigned a rating of “AAA” on the Bonds. Any explanation of the significance of such ratings may only be obtained from Moody’s and Standard & Poor’s. Generally, rating agencies base their ratings on information and materials furnished and on investigation, studies, and assumptions by the rating agencies. There is no assurance that the rating mentioned above will remain in effect for any given period of time or that a rating might not be lowered or withdrawn entirely, if in the judgment of the rating agency originally establishing the rating, circumstances so warrant. Any such downward change in or withdrawal of a rating might have an adverse effect on the market price or marketability of the Bonds.

MISCELLANEOUS

All quotations from and summaries and explanations of the Indenture and of other statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies in reasonable

quantity of the Indenture may be obtained upon request directed to the Underwriters or the Institution.

Any statements in this Offering Memorandum involving matters of opinion are intended as such and not as representations of fact. This Offering Memorandum is not to be construed as a contract or agreement between the Institution and Holders of any of the Bonds.

The execution and delivery of this Offering Memorandum has been duly authorized by the Institution.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

By: /s/ Daniel Shore 
Vice President for Finance

APPENDIX A

CERTAIN INFORMATION CONCERNING THE INSTITUTION

[THIS PAGE INTENTIONALLY LEFT BLANK]

HARVARD UNIVERSITY

MASSACHUSETTS HALL
CAMBRIDGE, MASSACHUSETTS 02138

November 4, 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 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:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
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 anticipated sale of a series of tax-exempt bonds in the amount of approximately \$740,970,000, and other related redemptions and repayments, the University estimates that the aggregate outstanding debt will be approximately \$6.6 billion.

* * *

This Appendix A and the accompanying "Financial Report Fiscal Year 2010" appended as Appendix B are submitted for inclusion in the Offering Memorandum relating to the President and Fellows of Harvard College Taxable Bonds, Series 2010C.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

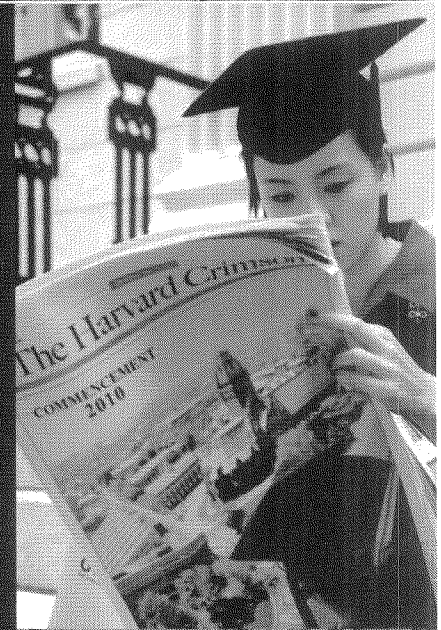
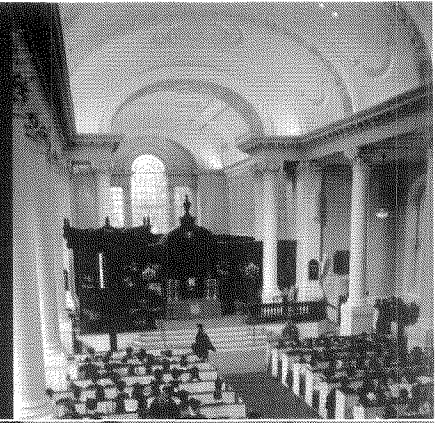
APPENDIX B

HARVARD UNIVERSITY FINANCIAL REPORT - FISCAL YEAR 2010

[THIS PAGE INTENTIONALLY LEFT BLANK]

**HARVARD UNIVERSITY
FINANCIAL REPORT**

FISCAL YEAR **2010**



2	MESSAGE FROM THE PRESIDENT
3	FINANCIAL OVERVIEW
8	MESSAGE FROM THE CEO OF HARVARD MANAGEMENT COMPANY
14	REPORT OF INDEPENDENT AUDITORS
15	FINANCIAL STATEMENTS
19	NOTES TO FINANCIAL STATEMENTS

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

<i>In millions of dollars</i>	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.

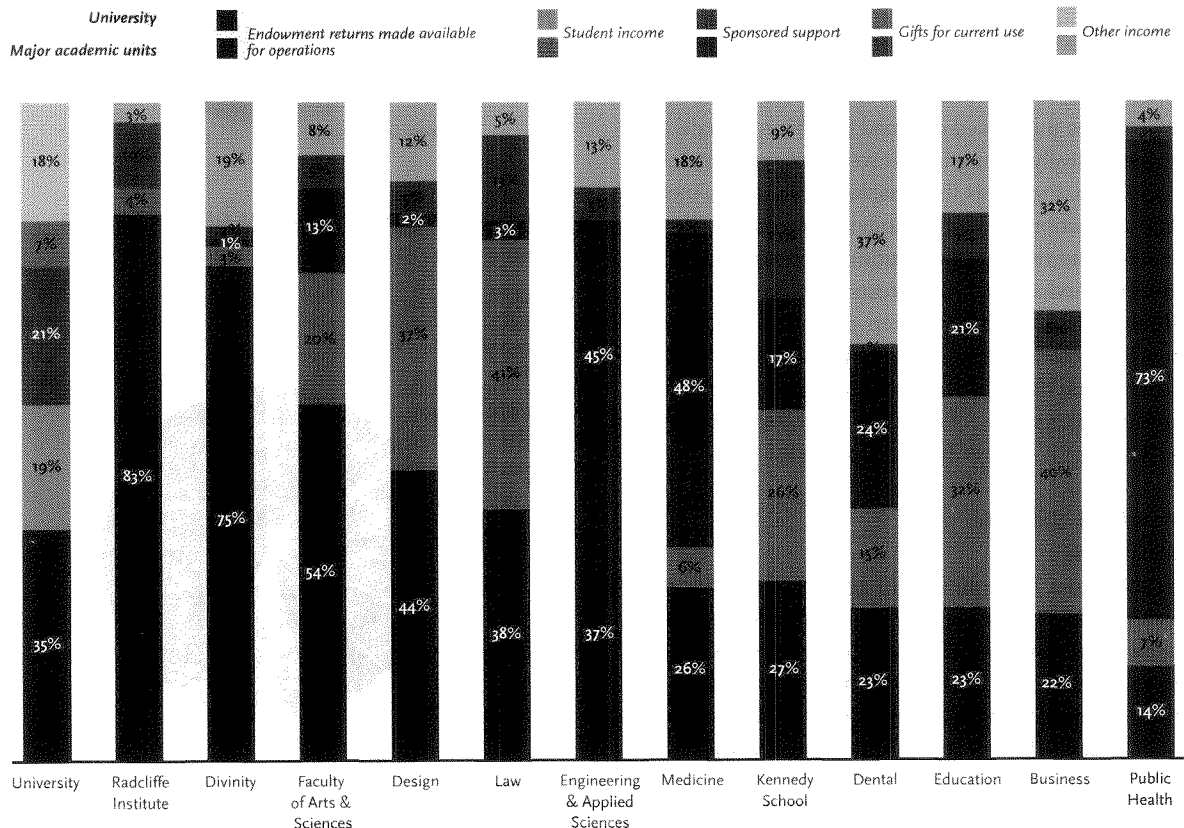
While Harvard's research enterprise has benefited from increased sponsored revenue, its longer-term sustainability will depend in large part on the overall federal budget and its future directions.

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

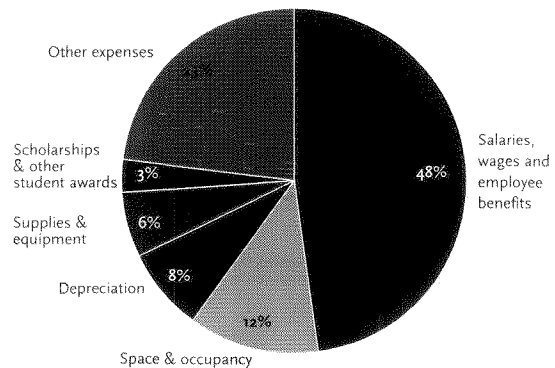
control, and the 2% decline demonstrates progress made in planned cost reductions.

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%.

<i>In thousands of dollars</i>	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)%

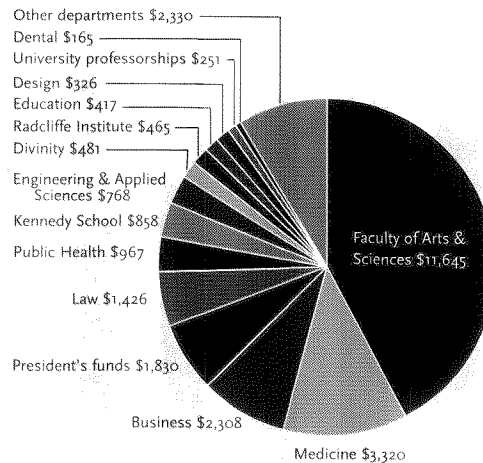
In practically all discretionary cost categories, the University achieved significant reductions in non-sponsored spending. Regarding compensation, which constitutes nearly half of the University's expenses, voluntary and involuntary staff workforce reductions, coupled with flat wage growth in fiscal 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



FAIR VALUE OF THE ENDOWMENT AS OF JUNE 30, 2010

In millions of dollars



TOTAL FAIR VALUE \$27,557

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.

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.

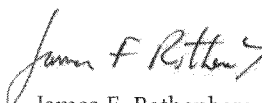
The confluence of these factors challenges not only Harvard, but all major research universities. In order to secure the resources that will allow our faculty and students to thrive, the University will continue to proactively pursue a multi-faceted financial management strategy: identifying administrative 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.

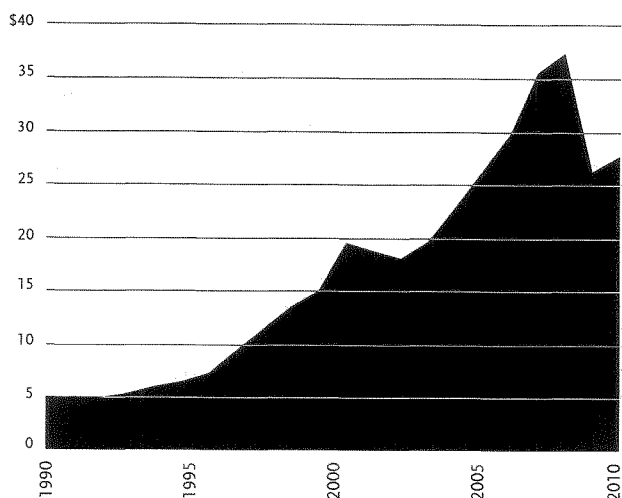
In addition to HMC's financial results, we are pleased with the much improved flexibility of the portfolio we are managing today. We have attended closely over the last two years to liquidity, capital commitments and risk management, while pursuing innovative investment strategies, growing our base of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

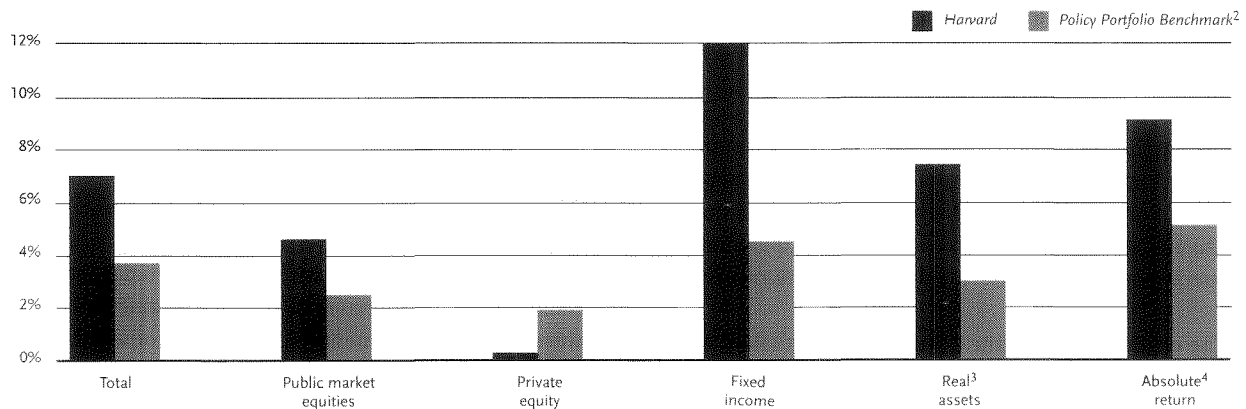
³ Absolute return asset class includes high yield.

⁴ Real assets consist of investments in liquid commodities, natural resources and real estate.

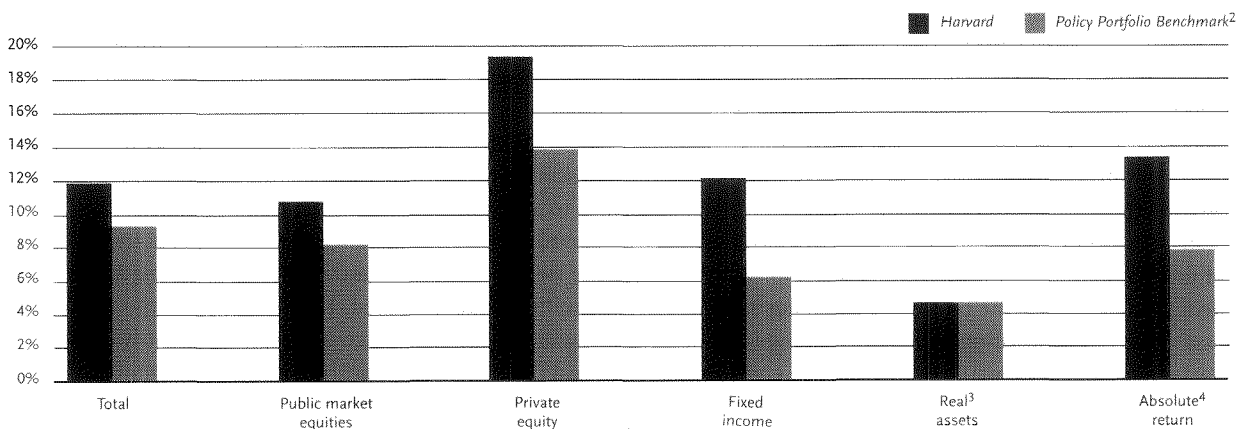
Another area where we are currently active is natural resources, a relatively new asset class that was pioneered by HMC. While nominal returns were relatively low this year, we outperformed the market benchmark significantly, as we have over time. We believe natural resources is a core strength in our 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 CLASS¹



ANNUALIZED TWENTY-YEAR PERFORMANCE BY ASSET CLASS¹



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.

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	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	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	
				2010	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)					
Transfers between endowment and the COA (Note 10)	3,223	(158,904)	\$ 211,809	240,793	194,459
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

<i>In thousands of dollars</i>	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 occurring 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 INVESTMENTS⁴	\$ 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 INVESTMENTS⁴	\$ 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 ASSETS⁵	\$ 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.

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.

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
	Gross derivative assets	Gross derivative liabilities	June 30, 2010 Net profit/ (loss)
Primary risk exposure			
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.

	As of June 30, 2009		For the year ended
	Gross derivative assets	Gross derivative liabilities	June 30, 2009 Net profit/ (loss)
Primary risk exposure			
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):

Credit rating on underlying	Purchased protection		As of June 30, 2010					
	Purchased notional amount*	Purchased fair value	Written protection notional amount		Total written credit protection	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
			Years to maturity					
			< 5 years	5-10 years				
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)

Credit rating on underlying	Purchased protection		As of June 30, 2009					
	Purchased notional amount*	Purchased fair value	Written protection notional amount		Total written credit protection	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
			Years to maturity					
			< 5 years	5-10 years				
A- to AAA	\$ 2,350,000	\$ 331,276	\$ 108,500	\$ 118,000	\$ 226,500	\$ 73,500	\$ 153,000	\$ (11,389)
BBB- to BBB+	6,376,332	211,384	377,832	77,700	455,532	101,232	354,300	(4,018)
Non-investment grade	712,091	297,599	706,993		706,993	202,953	504,040	(436,905)
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		Total	2009
	Temporarily restricted	Permanently restricted		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 (<i>Note 17</i>)*	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 COA	(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 (<i>Note 3</i>):		
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	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

<i>In thousands of dollars</i>	
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):

Fiscal year	Expected benefit payments		Expected Medicare Part D subsidies
	Pension	Postretirement health	
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.

**PRESIDENT AND FELLOWS
OF HARVARD COLLEGE**

DREW GILPIN FAUST
President

JAMES F. ROTHENBERG
Treasurer

NANNERL O. KEOHANE
PATRICIA A. KING
WILLIAM F. LEE
ROBERT D. REISCHAUER
ROBERT E. RUBIN

BOARD OF OVERSEERS

MITCHELL L. ADAMS
PHOTEINE ANAGNOSTOPOULOS
JOSHUA BOGER
LYNN WAN-HSIN CHANG
MORGAN CHU
WALTER CLAIR
RONALD COHEN
CHERYL DORSEY
SANDRA M. FABER
ANNE FADIMAN
LEILA FAWAZ
PAUL J. FINNEGAN
LUCY FISHER
LINDA GREENHOUSE
EVE J. HIGGINBOTHAM
WALTER ISAACSON
GERALD R. JORDAN, JR.
NICHOLAS D. KRISTOF
RICHARD A. MESERVE
KAREN NELSON MOORE
DIANA L. NELSON
DAVID W. OXTOBY
EMILY RAUH PULTZER
LISBET RAUSING
CRISTIÁN SAMPER
RICHARD R. SCHROCK
ROBERT N. SHAPIRO
SUSAN S. WALLACH
SETH P. WAXMAN
STEPHANIE D. WILSON

DREW GILPIN FAUST
ex officio

JAMES F. ROTHENBERG
ex officio

OFFICERS

DREW GILPIN FAUST
President

JAMES F. ROTHENBERG
Treasurer

STEVEN E. HYMAN
Provost

MARC GOODHEART
Secretary

KATHERINE N. LAPP
Executive Vice President

MARILYN HAUSAMMANN
*Vice President for Human
Resources*

CHRISTINE HEENAN
*Vice President for Public Affairs
and Communication*

LISA HOGARTY
Vice President of Campus Services

ROBERT W. IULIANO
*Vice President and General
Counsel*

TAMARA ROGERS
*Vice President for Alumni Affairs
and Development*

DANIEL S. SHORE
*Vice President for Finance and
Chief Financial Officer*

A. CLAYTON SPENCER
Vice President for Policy

PHOTOGRAPHY:

front cover (top to bottom): Memorial Church:
Stephanie Mitchell, Harvard University News Office;
Veritas: Stephanie Mitchell, Harvard University
News Office; Commencement: Jon Chase,
Harvard University News Office; Harvard Square:
Rose Lincoln, Harvard University News Office
back cover: Rose Lincoln, Harvard University
News Office

CONCEPT AND DESIGN:

Sametz Blackstone Associates, Boston



[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture that are not described elsewhere in this Offering Memorandum. The Bonds are issued and secured pursuant to the Indenture. References to the Indenture or a fund or account refer to the related document, fund or account with respect to the Bonds, as described in the Offering Memorandum. Unless otherwise specified to the contrary in this Appendix C, all definitions and provisions summarized refer to the Indenture. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.

Definitions

Unless the context otherwise requires, the following terms shall have the meanings specified below.

“*Authorized Denomination*” means \$1,000 or any multiple integral thereof.

“*Authorized Representative*” means the Institution’s Vice President for Finance, Assistant Treasurer, or any other Person designated an Authorized Representative of the Institution by a Certificate of the Institution signed by the Institution’s Vice President for Finance or Assistant Treasurer and filed with the Trustee.

“*Beneficial Owner*” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries) established to the reasonable satisfaction of the Trustee or the Institution .

“*Bond Fund*” means the fund by that name established pursuant to the Indenture.

“*Bonds*” means President and Fellows of Harvard College, Taxable Bonds, Series 2010C authorized by, and at any time Outstanding pursuant to, the Indenture.

“*Book-Entry Form*” or “*Book-Entry System*” means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Securities Depository or its nominee as Bondholder, with the physical bond certificates held by and “immobilized” in the custody of the Securities Depository and the book-entry system maintained by and the responsibility of others than the Institution or the Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

“*Business Day*” means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Designated Office of the Trustee is located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

““*Certificate*”, “*Statement*”, “*Request*” or “*Requisition of the Institution*” mean, respectively, a written certificate, statement, request or requisition signed in the name of the Institution by an Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

“*Code*” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder.

“*Comparable Treasury Issue*” means the United States Treasury security or securities selected by an Designated Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Bonds to be redeemed that would be utilized, at the time of selection and in accordance with customary financial

practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Bonds.

“*Comparable Treasury Price*” means, with respect to any redemption date, the average of the Reference Treasury Dealer Quotations for such redemption date or, if the Designated Investment Banker obtains only one Reference Treasury Dealer Quotation, such Reference Treasury Dealer Quotation.

“*Default*” means any event which is or after notice or lapse of time or both would become an Event of Default.

“*Designated Investment Banker*” means one of the Reference Treasury Dealers appointed by the Institution.

“*Designated Office*” means the Designated Office of the Trustee, which as of the date of the Indenture is located at 222 Berkeley Street, 2nd Floor, Boston, MA, Attention: Corporate Trust Department, and such other offices as the Trustee may designate from time to time by written notice to the Institution and the Holders.

“*Event of Default*” means any of the events specified as such in the Indenture.

“*Holder*” or “*Bondholder*”, whenever used in the Indenture with respect to a Bond, means the Person in whose name such Bond is registered.

“*Indenture*” means the Indenture of Trust, by and between the Institution and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“*Indenture Fund*” means the fund by that name established pursuant to the Indenture.

“*Institution*” means President and Fellows of Harvard College, an educational corporation existing under the laws of The Commonwealth of Massachusetts, or said corporation’s successor or successors.

“*Interest Account*” means the account by that name in the Bond Fund established pursuant to the Indenture.

“*Interest Payment Date*” means April 15 and October 15 of each year, commencing April 15, 2011.

“*Investment Securities*” means either of the following: (1) direct nonprepayable, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or direct nonprepayable, noncallable obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause (1) such as CATS, TIGRs, and Stripped Treasury Coupons rated or assessed in the highest Rating Categories by S&P and Moody’s and held by a custodian for safekeeping on behalf of holders of such securities and (2) money market funds registered under the Investment Company Act of 1940, the shares in which are registered under the Securities Act of 1933 and that have a rating by S&P of AAA m-G, AAAm or AAm, including such funds for which the Trustee or its affiliates provide investment advisory or other management services.

“*Make-Whole Redemption Price*” means the greater of:

- (1) 100% of the principal amount of any Bonds being redeemed; and
- (2) the sum of the present values of the remaining scheduled payments of principal and interest on any Bonds being redeemed (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 15 basis points.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

“*Offering Memorandum*” means the final offering memorandum dated November 4, 2010, relating to the Bonds.

“*Opinion of Counsel*” means a written opinion of counsel (who may be counsel for the Institution, but not an employee thereof) satisfactory to the Trustee.

“*Outstanding*” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Institution shall have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

“*Payment Date*” means an Interest Payment Date or the Principal Payment Date.

“*Person*” means an individual, corporation, firm, association, partnership, trust, limited liability company or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“*Principal Account*” means the account by that name in the Bond Fund established pursuant to the Indenture.

“*Principal Payment Date*” means October 15, 2040, the date of final maturity of the Bonds.

“*Project*” means (1) the refinancing of approximately \$169,885,350 of the Institution’s outstanding taxable commercial paper program, (2) costs of issuance, and (3) other eligible corporate activities.

“*Project Fund*” means the fund by that name established pursuant to the Indenture.

“*Rating Agency*” means Moody’s and S&P.

“*Rating Category*” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“*Record Date*” means the fifteenth (15th) day (whether or not a Business Day) of the month immediately preceding each Interest Payment Date.

“*Redemption Fund*” means the fund by that name established pursuant to the Indenture.

“*Reference Treasury Dealer*” means each of Citigroup Global Markets Inc., Goldman, Sachs & Co., and Deutsche Bank Securities Inc., or their respective affiliates which are primary U.S. Government securities dealers, and their respective successors; *provided* that if Citigroup Global Markets Inc., Goldman, Sachs & Co., or Deutsche Bank Securities Inc. or their respective affiliates shall cease to be a primary U.S. Government securities dealer in The City of New York (a “*Primary Treasury Dealer*”), the Institution shall substitute therefor another Primary Treasury Dealer.

“*Reference Treasury Dealer Quotations*” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to

the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

“*Responsible Officer*” means any officer of the Trustee assigned to administer its duties under the Indenture.

“*S&P*” means Standard & Poor’s, a division of The McGraw-Hill Companies, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Institution upon notice to the Trustee.

“*Securities Depository*” means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in the Indenture, which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

“*Special Record Date*” means the date established by the Trustee pursuant to the Indenture as the record date for the payment of defaulted interest on the Bonds.

“*Supplemental Indenture*” means any indenture hereafter duly authorized and entered into between the Institution and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

“*Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“*Trustee*” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by-virtue of the laws of the United States of America, or its successor or successors, as Trustee under the Indenture as provided in the Indenture.

“*Underwriters*” means Goldman, Sachs & Co., Citigroup Global Markets Inc., HSBC, Deutsche Bank Securities Inc., and Credit Agricole Securities (USA) Inc.

“*Uniform Commercial Code*” means the Uniform Commercial Code as in effect in The Commonwealth of Massachusetts from time to time.

Establishment and Pledge of Indenture Fund

Subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth therein, the Indenture Fund and all amounts held therein are pledged, assigned and transferred by the Institution to the Trustee for the benefit of the Bondholders to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The Institution grants to the Trustee a security interest in and acknowledges and agrees that the Indenture Fund and all amounts on deposit therein shall constitute collateral security to secure the full payment of the principal or Make-Whole Redemption Price of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. For purposes of creating, perfecting and maintaining the security interest of the Trustee on behalf of the Bondholders in and to the Indenture Fund and all amounts on deposit therein, the parties to the Indenture agree as follows: (1) the Indenture shall constitute a “security agreement” for purposes of the Uniform Commercial Code; (2) the Trustee shall maintain on its books records reflecting the interest, as set forth in the Indenture, of the Bondholders in the Indenture Fund and/or the amounts on deposit therein; and (3) the Indenture Fund and the amounts on deposit therein and any proceeds thereof shall be held by the Trustee acting in its capacity as an agent of the Bondholders, and the holding of such items by the Trustee (including the transfer of any items among the funds and accounts in the Indenture Fund) is deemed possession of such items on behalf of the Bondholders.

Nothing in the Indenture or in the Bonds, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or otherwise in the assets of the Institution other than in any interest of the Institution in the Indenture Fund and/or the amounts on deposit therein. No recourse for the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Institution in the Indenture or in any Supplemental Indenture or in any Bond, or because of the creation of any indebtedness represented thereby, shall be had against any employee, agent, or officer, as such, past, present or future, of the Institution or of any successor entity, either directly or through any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, it being expressly understood that all such liability is expressly waived and released as a condition of, and as a consideration for, the execution of the Indenture and the issue of the Bonds. No officer or agent of the Institution, nor any Person executing the Bonds, shall in any event be subject to any personal liability or accountability by reason of the issuance of the Bonds.

Funds and Accounts

The Indenture creates an Indenture Fund (and a Bond Fund and a Redemption Fund thereunder) and a Project Fund. The Indenture also creates an Interest Account and Principal Account under the Bond Fund. All of the funds and accounts, except for the Project Fund, are to be held by the Trustee. The Institution is to hold the Project Fund.

Application of Proceeds of Bonds. The proceeds from the sale of the Bonds (net of underwriters discount and original issue discount, if any) shall be applied to the refinancing of approximately \$169,885,350 of the Institution's outstanding taxable commercial paper program, to pay costs of issuance, and to fund other eligible corporate activities.

Indenture Fund. The Trustee establishes for the sole benefit of the Bondholders, a master fund referred to in the Indenture as the "Indenture Fund" containing the Bond Fund and the Redemption Fund and each of the accounts contained therein. The Indenture Fund and each of the funds and accounts in the Indenture Fund shall be identified on the books of the Trustee with reference hereto and shall be maintained by the Trustee and held in trust apart from all other moneys and securities held under the Indenture or otherwise, and the Trustee shall have the exclusive and sole right of withdrawal therefrom in accordance with the terms of the Indenture. All amounts deposited with the Trustee pursuant to the Indenture shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Bond Fund. Upon the receipt thereof, the Trustee shall deposit all payments received from the Institution (other than proceeds from the sale of the Bonds which are to be deposited in the Project Fund, amounts which are to be deposited in the Redemption Fund or income or profit from investments which are to be applied pursuant to the Indenture) in a special fund designated the "Bond Fund" which the Trustee shall establish and maintain and hold in trust and which shall be disbursed and applied only as authorized in the Indenture.

At the times specified below, the Trustee shall allocate within the Bond Fund in the following order of priority the following amounts to the following accounts or funds, each of which the Trustee shall establish and maintain and hold in trust and each of which shall be disbursed and applied only as hereinafter authorized: (1) On each Interest Payment Date, the Trustee shall deposit in the "Interest Account" the aggregate amount of interest becoming due and payable on such Interest Payment Date, until the balance in said account is equal to said aggregate amount of interest; and (2) On the Principal Payment Date, the Trustee shall deposit in the "Principal Account" the aggregate amount of principal becoming due and payable on the Principal Payment Date, until the balance in said account is equal to said aggregate amount of such principal.

Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity pursuant to the Indenture).

Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay at maturity the Bonds.

Redemption Fund. Upon the receipt thereof, the Trustee shall deposit the following amounts in a special fund designated the "Redemption Fund" which the Trustee shall establish and maintain and hold in trust: (1) all moneys deposited by the Institution with the Trustee directed to be deposited in the Redemption Fund; and (2) all interest, profits and other income received from the investment of moneys in the Redemption Fund.

All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Indenture, at the next succeeding date of redemption for which notice has not been given; provided that, at any time prior to the selection of Bonds for such redemption, the Trustee shall, upon direction of the Institution, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Institution may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Make-Whole Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Principal Account as set forth in a Request of the Institution.

Payments by the Institution; Allocation of Funds. On or before each Payment Date, until the principal of and interest on, the Bonds shall have been fully paid or provision for such payment shall have been made as provided in the Indenture, the Institution shall pay to the Trustee a sum equal to the amount payable on such Payment Date as principal of and interest on, the Bonds. Each payment made pursuant to this paragraph shall at all times be sufficient to pay the total amount of interest and principal (whether at maturity or upon acceleration) becoming due and payable on the Bonds on such Payment Date. If on any Payment Date the amounts held by the Trustee in the accounts within the Bond Fund are insufficient to make any required payments of principal of (whether at maturity or upon acceleration) and interest on the Bonds as such payments become due, the Institution shall forthwith pay such deficiency to the Trustee.

The obligations of the Institution to make the payments required by the immediately preceding paragraph and to perform and observe the other agreements on its part contained in the Indenture shall be a general obligation of the Institution, absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Trustee, and during the term of the Indenture, the Institution shall pay all payments required to be made by the immediately preceding paragraph (which payments shall be net of any other obligations of the Institution) as prescribed therein and all other payments required under the Indenture, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of and interest on, the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Institution (i) will not suspend or discontinue any payments provided for in the immediately preceding paragraph; (ii) will perform and observe all of its other covenants contained in the Indenture; and (iii) except as otherwise provided in the Indenture, will not terminate the Indenture for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the projects financed with the proceeds of the Bonds, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the Commonwealth of Massachusetts or any political subdivision of either of these, or any failure of the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture, except to the extent permitted by the Indenture.

Validity of Bonds

The recital contained in the Bonds that the same are issued pursuant to the Indenture shall be conclusive evidence of their validity and of compliance with the provisions of the Indenture in their issuance.

Additional Bonds

The Institution may, from time to time, without the consent of the Bondholders, issue additional bonds under the Indenture in addition to the Bonds ("Additional Bonds"). If issued, the Additional Bonds will become part of the same series as the Bonds and will have the same interest rate, redemption provisions, maturity date and CUSIP number as the Bonds.

Use of Securities Depository

Notwithstanding any provision of the Indenture to the contrary:

The Bonds shall be initially issued as fully registered Bonds, registered in the name of "Cede & Co.," as nominee of the Securities Depository and shall be evidenced by one Bond in the total aggregate principal amount of the Bonds. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except: (1) to any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this paragraph ("substitute depository"); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it; (2) to any substitute depository designated by the Institution and not objected to by the Trustee, upon (i) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (ii) a determination by the Institution that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or (3) to any Person as provided below, upon (i) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository which is not objected to by the Trustee can be obtained or (ii) a determination by the Institution that it is in the best interests of the Institution to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

In the case of any transfer pursuant to clause (1) or clause (2) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee, together with a Certificate of the Institution to the Trustee, a single new Bond shall be executed and delivered in the aggregate principal amount of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Institution. In the case of any transfer pursuant to clause (3) of the immediately preceding paragraph, upon receipt of the Outstanding Bonds by the Trustee together with a Certificate of the Institution to the Trustee, new Bonds shall be executed and delivered in such denominations and registered in the names of such persons as are requested in such a Certificate of the Institution, subject to the limitations of the Indenture, provided the Trustee shall not be required to deliver such new Bonds within a period less than 60 days from the date of receipt of such a Certificate of the Institution.

In the case of partial redemption or an advance refunding of the Bonds evidencing all or a portion of the principal amount Outstanding, the Securities Depository shall make an appropriate notation on the Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee.

The Institution and the Trustee shall be entitled to treat the person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Institution or the Trustee. With respect to Bonds registered in the registry books kept by the Trustee in the name of Cede & Co., as nominee of the Securities Depository, the Institution and the Trustee shall have no responsibility or obligation with respect to the payment to any Beneficial Owner or any other person, other than the Securities Depository, of any amount with respect to the principal of and premium, if any, and interest on the Bonds only to or upon the order of the Securities Depository, and all such payments shall be valid and effective fully to satisfy and discharge the Institution's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid.

Particular Covenants

Punctual Payment. The Trustee shall from funds provided by the Institution punctually pay the principal or Make-Whole Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, from funds made available by the Institution. When and as paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be cancelled by the Trustee and delivered to, or upon the order of, the Institution.

Compliance with Indenture. The Institution covenants not to issue, or permit to be issued, any Bonds in any manner other than in accordance with the provisions of the Indenture, and shall not suffer or permit any Default

(within its power to prevent) to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture.

Against Encumbrances. The Institution shall not create or suffer to be created any pledge, lien, charge or other encumbrance upon all or any part of the Indenture Fund or any of the amounts held therein pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture and any statutory liens or other liens arising by operation of law. The Institution will assist the Trustee in contesting any pledge, lien, charge or other encumbrance that does not comply with the provisions of the Indenture.

Power to Issue Bonds and Make Pledge and Assignment. The Institution is duly authorized to issue the Bonds and to enter into the Indenture and to pledge and assign the funds and accounts purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Bonds are and will be legal, valid and binding obligations of the Institution in accordance with their terms, and the Institution and the Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of funds and accounts and all the rights of the Bondholders under the Indenture against all claims and demands of all Persons whomsoever, subject to the limitations set forth in the Indenture relating to the Trustee.

Accounting Records and Financial Statements. With respect to each fund or account established and maintained by the Trustee pursuant to the Indenture, the Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with corporate trust accounting standards, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of payments received from the Institution and the proceeds of the Bonds. Such books of record and account shall be available for inspection by the Institution and any Bondholder, or his or her agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances.

The Trustee shall file and furnish to each Bondholder who shall have filed his or her name and address with the Trustee for such purpose, within 30 days after the end of each month, a complete financial statement (which need not be audited and may be its regular account statements) covering receipts, disbursements, allocation and application of any moneys (including proceeds of Bonds) in any of the funds and accounts established pursuant to the Indenture for such month; provided that the Trustee shall not be obligated to deliver an accounting for any fund or account that has a balance of \$0.00 and has not had any activity since the last reporting. The Trustee shall also furnish a copy of its monthly statement to the Institution.

Continuing Disclosure. The Institution has entered into continuing disclosure undertakings (the "Continuing Disclosure Undertakings") in connection with tax-exempt revenue bonds issued for the benefit of the Institution (the "Tax-Exempt Bonds"). Holders and prospective purchasers of the Bonds may obtain copies of the information provided by the Institution under those Continuing Disclosure Undertakings on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA"). Each Continuing Disclosure Undertaking terminates when the related tax-exempt revenue bonds are paid or deemed paid in full.

Events of Default and Remedies of Bondholders

Events of Default. The following events shall be "Events of Default": (a) default in the due and punctual payment of the principal or Make-Whole Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise; (b) default in the due and punctual payment of any interest on any Bond when and as such interest shall become due and payable; (c) default by the Institution in the performance or observance of any of the other covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied and stating that such notice is a "Notice of Default" under the Indenture, shall have been given to the Institution by the Trustee, or to the Institution and the Trustee by the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding; (d) the commencement by the Institution of a voluntary case under the federal bankruptcy laws, or if the Institution shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part

of its property; (e) the appointment of a trustee, receiver, custodian or similar official or agent for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days; or (f) an order or decree for relief in an involuntary case under the federal bankruptcy laws shall be entered against the Institution, 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.

Acceleration of Maturity. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, upon notice in writing to the Institution, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration by the Trustee the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all the principal or Make-Whole Redemption Price of and interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the Bonds, and the reasonable charges and expenses of the Trustee, and any and all other Defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Holders of all of the Bonds by written notice to the Institution, rescind and annul such declaration and its consequences and waive such Default; but no such rescission and annulment shall extend to or shall affect any subsequent Default, or shall impair or exhaust any right or power consequent thereon.

Rights as a Secured Party. The Trustee, as appropriate, may exercise all of the rights and remedies of a secured party under the Uniform Commercial Code with respect to securities in the Indenture Fund, including without limitation the Bond Fund and the Redemption Fund, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligation of the Institution hereunder. Notice sent by registered or certified mail, postage prepaid, or delivered during business hours, to the Institution at least seven (7) days before an event under Uniform Commercial Code Sections 9-610 and 9-611, or any successor provision of law shall constitute reasonable notification of such event.

Application of Moneys Collected by the Trustee. If an Event of Default shall occur and be continuing, all moneys then held or thereafter received by the Trustee under any of the provisions of the Indenture (subject to provisions of the Indenture requiring moneys to be held for payment of particular Bonds) shall be applied by the Trustee as follows and in the following order:

(A) To the payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture;

(B) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds; and

(C) To the payment of the principal or Make-Whole Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full

any installment or installments due on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Make-Whole Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Make-Whole Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Trustee to Represent Bondholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture and applicable provisions of any law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power granted in the Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee, or in such Holders under the Bonds, the Indenture or any applicable law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the amounts pledged under the Indenture, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greatest percentage (which percentage shall be, in any case, not less than a majority in aggregate principal amount) of the Bonds then Outstanding. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

Bondholders' Direction of Proceedings. The Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the time, method and place of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholder's Right to Sue. No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or

said Holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared by the Indenture, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture or applicable law with respect to the Bonds, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner provided in the Indenture and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

Absolute Obligation of Institution. Notwithstanding any other provision of the Indenture, or in the Bonds, nothing shall affect or impair the obligation of the Institution, which is absolute and unconditional, to pay the principal or Make-Whole Redemption Price of and interest on the Bonds to the respective Holders of the Bonds at their respective dates of maturity, or upon call for redemption, as provided in the Indenture, or, subject to the provisions of the Indenture regarding limitation on Bondholders' right to sue, affect or impair the right of such Holders to enforce such payment by virtue of the contract embodied in the Bonds.

Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Institution, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Indenture, severally and respectively, and all rights, remedies, powers and duties of the Institution, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee or to the Holders of the Bonds is in to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Indenture or now or hereafter existing at law or in equity or otherwise.

Delay or Omission Not Waiver. No delay or omission of the Trustee or of any Holder of the Bonds to exercise any right or power arising upon the occurrence of any Default shall impair any such right or power or shall be construed to be a waiver of any such Default or an acquiescence therein; and every power and remedy given by the Indenture to the Trustee or to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient.

Waiver of Past Defaults. The Trustee may, and upon request of the Holders of not less than a majority in aggregate principal amount of the Outstanding Bonds shall, on behalf of the Holders of all the Bonds waive any past Default under the Indenture and its consequences, except a Default: (A) In the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, or (B) in respect of a covenant or other provision of the Indenture which, pursuant to the Indenture, cannot be modified or amended without the consent of the Holder of each Outstanding Bond affected. Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Indenture, but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Undertaking for Costs. Subject to the provisions of the Indenture regarding the Trustee's rights to compensation and indemnification, the parties to the Indenture agree, and each Holder of any Bond by such Person's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this paragraph shall not apply to any suit instituted by the Trustee or to any suit

instituted by any Bondholder or group of Bondholders holding in the aggregate more than a majority in aggregate principal amount of the Outstanding Bonds.

Notice of Default. Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall notify the Institution in writing as soon as practicable but in any event within 5 Business Days.

Upon a Responsible Officer's actual knowledge of the existence of any Default under the Indenture, the Trustee shall transmit by mail to all Bondholders, as their names and addresses appear in the bond register, notice of such Default under the Indenture within 90 days, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default in the payment of the principal or Make-Whole Redemption Price of or interest on any Bond, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; and provided, further, that in the case of any Default of the character specified in (c) under "Events of Default" above, no such notice to Bondholders shall be given until at least 30 days after the occurrence thereof.

Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Institution or any other obligor upon the Bonds or the property of the Institution or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Institution for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise: (1) To file and prove a claim for the whole amount of principal (or Make-Whole Redemption Price) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel) and of the Bondholders allowed in such judicial proceeding; and (2) To collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any receiver, assignee, trustee, liquidator or sequestrator (or other similar official) in any such judicial proceeding is, by the Indenture, authorized by each Bondholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel including expenses and fees of outside counsel and allocated costs of internal legal counsel, and any other amounts due the Trustee under the Indenture.

Nothing contained in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

The Trustee

Duties, Immunities and Liabilities of Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

The Institution may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with the Indenture, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent,

or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by an instrument in writing.

The Trustee may at any time resign by giving written notice of such resignation to the Institution and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Trustee. Upon receiving such notice of resignation, the Institution shall promptly appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment.

Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within 30 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture, shall signify its acceptance of such appointment by executing and delivering to the Institution and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Indenture; but, nevertheless at the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Indenture. Upon request of the successor Trustee, the Institution shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the Institution shall mail or cause to be mailed (at the expense of the Institution) a notice of the succession of such Trustee to the trusts under the Indenture to the Bondholders at the addresses shown on the registration books maintained by the Trustee. If the Institution fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the Institution.

Any successor Trustee shall be a trust company or bank having trust powers having a corporate trust office in The Commonwealth of Massachusetts, having a combined capital and surplus of (or if such trust company or bank is a member of a bank holding system, its bank holding company shall have a combined capital and surplus of) at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or Commonwealth of Massachusetts authority. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in its possession and shall be subject upon prior written notice to the inspection of the Institution and any Bondholder, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Modification or Amendment of the Indenture

Amendments Permitted. The Indenture and the rights and obligations of the Institution and of the Holders of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Institution and the Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or reduce the rate of interest thereon, or extend the time of payment of

interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Indenture Fund or the amounts pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on the Indenture Fund and such amounts (except as expressly provided in the Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Institution and the Trustee of any Supplemental Indenture pursuant to this paragraph, the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to the Bondholders at the addresses shown on the registration books maintained by the Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

The Indenture and the rights and obligations of the Institution, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental to the Indenture, which the Institution and the Trustee may enter into without the necessity of obtaining the consent of any Bondholders, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Institution contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Indenture to or conferred upon the Institution, provided that such covenant, agreement, pledge, assignment or surrender shall not materially adversely affect the interests of the Holders of the Bonds; (2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Institution or the Trustee may deem necessary or desirable and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds (provided, however, that such modifications, amendments, supplements and additions shall be permitted under this paragraph only if qualification under said act or similar federal statute is required by applicable law now or hereafter in effect); or (4) to provide for the procedures required to permit any Bondholder, at its option, to utilize an uncertificated system of registration of its Bond or to facilitate the registration of the Bonds in the name of a nominee of the Securities Depository in accordance with the provisions of the Indenture.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by either of the two preceding paragraphs which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Institution, the Trustee and all Holders of Bonds Outstanding shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Amendment of Particular Bonds. The provisions of the Indenture regarding modification or amendment of the Indenture shall not prevent any Bondholder from accepting any amendment as to the particular Bonds held by such Bondholder, provided that due notation thereof is made on such Bonds.

Defeasance

Discharge of Indenture. The Bonds may be paid or discharged by the Institution or the Trustee on behalf of the Institution in any of the following ways: (A) by paying or causing to be paid the principal or Make-Whole Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (B) by depositing with the Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided

in the Indenture) to pay when due or redeem all Bonds then Outstanding; or (C) by delivering to the Trustee, for cancellation by it, all Bonds then Outstanding.

If the Institution shall also pay or cause to be paid all other sums payable under the Indenture by the Institution, then and in that case at the election of the Institution (evidenced by a Certificate of the Institution filed with the Trustee signifying the intention of the Institution to discharge all such indebtedness and the Indenture and upon receipt by the Trustee of an Opinion of Counsel to the effect that the obligations under the Indenture and the Bonds have been discharged), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of the Indenture Fund and all amounts held therein made under the Indenture and all covenants, agreements and other obligations of the Institution under the Indenture (except as otherwise provided in the Indenture) shall cease, terminate, become void and be completely discharged and satisfied and the Bonds deemed paid.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice, then all liability of the Institution in respect of such Bond shall cease, terminate and be completely discharged, and the Bonds deemed paid, except only that thereafter the Holder thereof shall be entitled to payment of the principal or Make-Whole Redemption Price of and interest on such Bond by the Institution, and the Institution shall remain liable for such payments, but only out of such money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture regarding payment of Bonds after discharge of the Indenture.

The Institution may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Institution may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Payment of Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal or Make-Whole Redemption Price of, or interest on, any Bonds and remaining unclaimed for three years (or, if shorter, one day before such moneys would escheat to The Commonwealth of Massachusetts under then applicable Massachusetts law) after such principal, Make-Whole Redemption Price or interest, as the case may be, has become due and payable (whether at maturity or upon call for redemption), shall be repaid to the Institution free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the Institution and the Trustee indemnifying the Institution and the Trustee with respect to claims of Holders of Bonds which have not yet been paid, and all liability of the Trustee and the Institution with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Institution as aforesaid, the Trustee may (at the cost of the Institution) first mail to the Holders of Bonds which have not yet been paid, at the addresses shown on the registration books maintained by the Trustee, a notice, in such form as may be deemed appropriate by the Trustee with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Institution of the moneys held for the payment thereof.

Limitation of Rights to Parties and Bondholders

Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any Person other than the Institution, the Trustee and the Holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Institution, the Trustee and the Holders of the Bonds.

Evidence of Rights of Bondholders

Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in Person or by an agent or agents duly appointed in writing.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the registration books for the Bonds held by the Trustee.

Any request, consent, or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Institution in accordance therewith or reliance thereon.

Waiver of Personal Liability

No member, officer, agent or employee of the Institution shall be individually or personally liable for the payment of the principal or Make-Whole Redemption Price of or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the performance of any duty under the Indenture; but nothing contained in the Indenture shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law or by the Indenture.

Governing Law; Venue

The Indenture shall be construed in accordance with and governed by the Constitution and the laws of The Commonwealth of Massachusetts applicable to contracts made and performed in The Commonwealth of Massachusetts. The Indenture shall be enforceable in The Commonwealth of Massachusetts, and any action arising under the Indenture shall (unless waived by the Institution) be filed and maintained in The Commonwealth of Massachusetts.

CUSIP Numbers

Neither the Trustee nor the Institution shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Bond or in any redemption notice.

APPENDIX D

PROPOSED FORM OF OPINION OF COUNSEL TO THE INSTITUTION

[THIS PAGE INTENTIONALLY LEFT BLANK]



ROPES & GRAY LLP

ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050

BOSTON NEW YORK PALO ALTO SAN FRANCISCO TOKYO WASHINGTON, DC www.ropesgray.com

November 10, 2010

President and Fellows of Harvard College
440 Holyoke Center
1350 Massachusetts Avenue
Cambridge, Massachusetts 02138

Ladies and Gentlemen:

As counsel for President and Fellows of Harvard College (the "College"), we have been requested to furnish you with an opinion in connection with the proposed issue by the College of \$300,000,000 principal amount of Taxable Bonds, Series 2010C (the "Bonds").

The College is an educational corporation incorporated on May 31, 1650 by Act of the General Court of the Colony of Massachusetts Bay, confirmed, as amended, in the Constitution of 1780 of The Commonwealth of Massachusetts, constituting, together with certain acts of the General Court of The Commonwealth of Massachusetts and its predecessors, the College's Charter.

We have examined executed copies of the Indenture of Trust dated as of November 1, 2010 (the "Indenture of Trust") between the College and The Bank of New York Mellon Trust Company, N.A. (the "Trustee") and a certified copy of proceedings of the College authorizing the execution of the Indenture of Trust and certain other documents.

In addition, we have examined such other documents and have made such investigation and such examination of law as we have deemed necessary for the purposes of the following opinion.

For purposes of this opinion, we have assumed that the Trustee has all requisite power and authority and has taken all necessary corporate action, consistent with all applicable laws and regulations, to execute and deliver the Indenture of Trust and to effect the transactions contemplated thereby.

Based upon the foregoing, we are of the opinion that:

1. The Indenture of Trust has been duly authorized, executed and delivered and constitutes a valid and legally binding obligation of the College and, subject to the

qualifications stated in the unnumbered paragraphs at the end of this opinion, is enforceable against the College in accordance with their terms.

2. The Bonds have been duly authorized, issued and delivered against payment of the agreed upon consideration and, subject to the qualifications contained in the unnumbered paragraphs at the end of this opinion, are valid, legally binding, general obligations of the College, enforceable against the College in accordance with their terms.

Our opinion that the Indenture of Trust delivered to you today is the legal, valid and binding obligation of the College, enforceable in accordance with its terms, is subject to (a) bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting the rights and remedies of creditors and secured parties, and (b) general principles of equity. We do not express any opinion herein as to the availability of the remedy of specific performance or injunctive relief or other relief in equity upon breach of any of the agreements, documents, or obligations referred to herein.

The opinions expressed herein are subject to the qualification that the enforceability of provisions in the Indenture of Trust providing for indemnification or contribution may be limited by public policy considerations. In addition, we express no opinion as to (i) the extent to which broadly worded waivers may be enforced, (ii) the enforceability of any provision of the Indenture of Trust that purports to grant the right of setoff, that permits the exercise of a right of setoff against amounts not then due, or that constitutes a penalty or forfeiture, or (iii) the enforceability of any provision that provides for conclusive presumptions or determinations, non-effectiveness of oral modifications, powers of attorney, waiver of or consent to service of process and venue, or waiver of offset or defenses.

In addition, certain provisions contained in the Indenture of Trust may be unenforceable in whole or in part but the inclusion of such provisions in the Indenture of Trust does not affect the validity of any of the other provisions thereof, and the remaining provisions of the Indenture of Trust are sufficient for the practical realization of the benefits intended to be provided thereby.

President and Fellows of Harvard College
November 10, 2010
Page 3

This opinion is solely for your benefit and the benefit of the Underwriters who purchase the Bonds, and may not be relied upon by any subsequent holders of the Bonds or by any other person.

Very truly yours,

Ropes & Gray LLP

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

