



\$1,500,000,000
PRESIDENT AND FELLOWS OF HARVARD COLLEGE
TAXABLE BONDS, SERIES 2008D

\$500,000,000 5.000% Bonds due January 15, 2014 Issue price: 99.856%

\$500,000,000 6.000% Bonds due January 15, 2019 Issue price: 99.520%

\$500,000,000 6.500% Bonds due January 15, 2039 Issue price: 99.635%

Dated: Date of Delivery

The President and Fellows of Harvard College Taxable Bonds, Series 2008D (the “Bonds”) will be issued pursuant to the terms of an Indenture of Trust, dated as of December 1, 2008 (the “Indenture”), by and between President and Fellows of Harvard College (the “Institution”) and U.S. Bank National Association, as trustee (the “Trustee”). The proceeds of the Bonds will be used (i) to pay at maturity certain portions of taxable commercial paper notes, (ii) for other eligible corporate purposes of the Institution and (iii) to pay costs of issuance of the Bonds.

The Bonds will be issued in fully registered form 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 \$100,000 and any integral multiple of \$1,000 in excess of \$100,000. 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, as more fully described in “BOOK-ENTRY ONLY SYSTEM” herein.

Interest on the Bonds will be payable on January 15 and July 15 of each year, commencing on July 15, 2009. So long as the Bonds are held by DTC, the principal or 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 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 have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as such terms are defined under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold only to U.S. persons who are qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Purchasers and subsequent transferees of the Bonds will be deemed to have made such representations and agreements, as set forth under “NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFER”. The Bonds are not transferable except in accordance with the restrictions described under “NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFER” 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 2008” 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 of Bonds. Investors must read the entire Offering Memorandum to obtain information essential to the making of an informed investment decision.

The initial purchasers listed below (the “Initial Purchasers”) expect to deliver the Bonds, when, as and if issued by the Institution and accepted by the Initial Purchasers, 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 Initial Purchasers by its 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 December 12, 2008.

Goldman, Sachs & Co.

J.P. Morgan

Morgan Stanley

TABLE OF CONTENTS

	<u>Page</u>
GENERAL INFORMATION	i
INTRODUCTION.....	1
PURPOSE OF THE BONDS AND THE PLAN OF FINANCING.....	1
THE INSTITUTION	1
THE BONDS	1
SECURITY FOR THE BONDS.....	2
OUTSTANDING INDEBTEDNESS.....	2
REDEMPTION.....	2
BOOK-ENTRY ONLY SYSTEM.....	2
CERTAIN INFORMATION RELATED TO THIS OFFERING MEMORANDUM	3
ESTIMATED SOURCES AND USES OF PROCEEDS.....	4
PLAN OF FINANCING	4
THE BONDS	4
DESCRIPTION OF THE BONDS.....	4
REDEMPTION	5
PARTIAL REDEMPTION OF BONDS	6
NOTICE OF REDEMPTION	6
EFFECT OF REDEMPTION	7
SELECTION OF BONDS FOR REDEMPTION	7
BOOK-ENTRY ONLY SYSTEM	7
PURCHASES OF THE BONDS THROUGH EUROCLEAR AND CLEARSTREAM	11
SECURITY FOR THE BONDS	15
GENERAL	15
CERTAIN FUNDS AND ACCOUNTS ESTABLISHED BY THE INDENTURE.....	16
CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS.....	16
UNDERWRITING.....	21
NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFERS.....	24
AVAILABLE INFORMATION	27
APPROVAL OF LEGALITY	28
FINANCIAL STATEMENTS	28
INDEPENDENT ACCOUNTANTS	28
RATINGS	28
MISCELLANEOUS	28
 CERTAIN INFORMATION CONCERNING THE INSTITUTION.....	 APPENDIX A
 HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2008	 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., as representative of the Initial Purchasers 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.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”). The Bonds may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as such term is defined under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold only to U.S. persons who are qualified institutional buyers (as defined in Rule 144A under the Securities Act, “Qualified Institutional Buyers”) in reliance on Rule 144A under the Securities Act and to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act. Prospective purchasers that are Qualified Institutional Buyers are hereby notified that the seller of the Bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Bonds are not transferable except in accordance with the restrictions described under “NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFER”.

This Offering Memorandum is confidential. You are authorized to use this Offering Memorandum solely for the purpose of considering the purchase of the Bonds described in the Offering Memorandum. The Institution and other sources identified herein have provided the information contained in this Offering Memorandum. 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. The Initial Purchasers named herein make no representation or warranty, expressed or implied, as to the accuracy or completeness of such information, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers. You may not reproduce or distribute this Offering Memorandum, in whole or in part, and you may not disclose any of the contents of this Offering Memorandum or use any information herein for any purpose other than considering the purchase of the Bonds. You agree to the foregoing by accepting delivery of this Offering Memorandum.

Notwithstanding anything herein to the contrary, investors may disclose to any and all persons, without limitation of any kind, the U.S. federal or state income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating to such tax treatment and tax structure. However, any information relating to the U.S. federal income tax treatment or tax structure shall remain confidential (and the foregoing sentence shall not apply) to the extent reasonably necessary to enable any person to comply with applicable securities laws. For this purpose, “tax structure”

means any facts relevant to the U.S. federal or state income tax treatment of the offering but does not include information relating to the identity of the issuer of the securities, the issuer of any assets underlying the securities, or any of their respective affiliates that are offering the securities.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Neither the Institution nor the Initial Purchasers 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 Initial Purchasers 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. 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.

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 2008”. 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.

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

SUMMARY OF THE OFFERING

Issuer	President and Fellows of Harvard College
Securities Offered	\$500,000,000 5.000% Bonds due January 15, 2014 \$500,000,000 6.000% Bonds due January 15, 2019 \$500,000,000 6.500% Bonds due January 15, 2039
Interest Accrual Dates	Interest will accrue from the settlement date
Interest Payment Dates	January 15 and July 15 of each year, commencing July 15, 2009
Record Dates	January 1 and July 1 of each year
Redemption	The Bonds are subject to optional redemption. See “THE BONDS – Redemption” herein.
Settlement Date	December 12, 2008
Authorized Denominations	\$100,000 and any integral multiple of \$1,000 over \$100,000
Form and Depository	The Bonds will be delivered solely in book-entry form through the facilities of DTC.
Use of Proceeds	The net proceeds of this offering will be used (i) to pay at maturity certain portions of taxable commercial paper notes issued by the Institution, (ii) for other eligible corporate purposes of the Institution, including working capital expenses and certain payments to be made by the Institution to terminate certain interest rate swap agreements, and (iii) to pay costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF PROCEEDS” and “PLAN OF FINANCING” herein.
Ratings	Moody’s: Aaa S&P: AAA

OFFERING MEMORANDUM

Relating to

\$1,500,000,000

**PRESIDENT AND FELLOWS OF HARVARD COLLEGE
TAXABLE BONDS, SERIES 2008D**

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 \$1,500,000,000 aggregate principal amount of the President and Fellows of Harvard College Taxable Bonds, Series 2008D (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 Financing

The proceeds of the Bonds, along with other available funds, will be used (i) to pay at maturity certain portions of taxable commercial paper notes issued by the Institution, (ii) for other eligible corporate purposes of the Institution, including working capital expenses and certain payments to be made by the Institution to terminate certain interest rate swap agreements and (iii) to pay costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF PROCEEDS” and “PLAN OF FINANCING” 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 in APPENDIX B – “HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2008” attached hereto, which should both be read in their entirety.

The Bonds

The Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2008 (the “Indenture”), by and between the Institution and U.S. Bank National Association, 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 incurred, may be either secured or unsecured and may be entitled to payment prior to payment on the Bonds. See “SECURITY FOR THE BONDS” herein.

Outstanding Indebtedness

Upon delivery of the Bonds and after taking into account the amount of indebtedness to be refinanced with the proceeds of the Bonds and related transactions (including a proposed tax-exempt bond offering expected to close in January 2009), the total outstanding indebtedness is expected to be approximately \$5.9 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 2008” attached hereto.

Redemption

The Bonds are subject to optional redemption prior to their stated maturity. 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 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 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.

The Bonds sold in reliance on Rule 144A under the Securities Act (“Rule 144A”) will be evidenced by one or more global bonds (the “Rule 144A Global Bonds”) in fully registered form without coupons, deposited with a custodian for, and registered in the name of, a nominee of DTC. Beneficial interests in the Rule 144A Global Bonds will trade in DTC’s Same Day Funds Settlement System, and secondary market trading activity in such interests will therefore settle in immediately available funds. Except as described herein, beneficial interests in the Rule 144A Global Bonds will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants.

The Bonds sold in offshore transactions in reliance on Regulation S will initially be represented by one or more temporary global bonds (each, a “Temporary Regulation S Global

Bond”, and together with the Rule 144A Global Bond, the “Global Bonds”) registered in the name of Cede & Co., a nominee of DTC, for the respective accounts of Euroclear and Clearstream (as defined herein). Beneficial interests in a Temporary Regulation S Global Bond may be held only through Euroclear or Clearstream. Beneficial interests in a Temporary Regulation S Global Bond will be exchanged for beneficial interests in a permanent Regulation S Global Bond in definitive, fully registered form upon the later of (i) the expiration of the period which ends 40 days after the later of (a) the commencement of the offering of the Bonds and (b) the issue date of the Bonds (such period, the “Restricted Period”) and (ii) the first date on which the requisite certifications (in the form provided in the Indenture) are provided to the Trustee. Beneficial interests in a Regulation S Global Bond may be held only through Euroclear or Clearstream.

Whether before or after the Restricted Period, a beneficial interest in a permanent or Temporary Regulation S Global Bond may be transferred to a person who takes delivery in the form of an interest in the corresponding Restricted Global Bond only upon receipt by the Trustee of a written certification from the transferor to the effect that such transfer is being made (i) to a person that the transferor reasonably believes is a Qualified Institutional Buyer in a transaction meeting the requirements of Rule 144A and (ii) in accordance with all applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in the Rule 144A Global Bond may be transferred to a person who takes delivery in the form of an interest in the permanent or Temporary Regulation S Global Bond, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the Trustee a written certificate to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Any beneficial interest in one of the Global Bonds that is transferred to a person who takes delivery in the form of an interest in another Global Bond shall, upon transfer, cease to be an interest in such Global Bond and become an interest in such other Global Bond and, accordingly, shall thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Bond for as long as it remains such an interest.

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.

ESTIMATED SOURCES AND USES OF PROCEEDS

The proceeds of the Bonds will be used for the purposes described under “PLAN OF FINANCING” herein. The estimated sources and uses of the proceeds of the Bonds are shown below.

SOURCES:

Principal Amount of Bonds.....	\$1,500,000,000
Original Issue Discount.....	<u>4,945,000</u>
 Total Sources of Funds.....	 <u><u>\$1,495,055,000</u></u>

USES:

Repayment of Refunded Taxable Notes	\$ 250,000,000
Other Corporate Purposes	1,236,305,000
Costs of Issuance*	<u>8,750,000</u>
 Total Uses of Funds	 <u><u>\$1,495,055,000</u></u>

PLAN OF FINANCING

The proceeds of the Bonds will be used to pay at maturity certain portions of taxable commercial paper notes issued by the Institution and be used for other eligible corporate purposes, including working capital expenses and certain payments to be made by the Institution to terminate certain interest rate swap agreements. A portion of the proceeds of the Bonds also will be used to pay costs of issuance of the Bonds. 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 2008” attached hereto.

THE BONDS

Description of the Bonds

The Bonds will be dated as of the date of their original issuance and will mature (subject to prior redemption) on dates and bear interest at the rates shown on the cover page. Interest on the Bonds will be payable on January 15 and July 15 of each year (each, an “Interest Payment Date”),

* Includes Initial Purchasers’ discount and other costs.

commencing on July 15, 2009, and will be calculated on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months.

The Bonds will be delivered in the form of fully registered Bonds in denominations of \$100,000 and any integral multiple of \$1,000 in excess of \$100,000. 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 “BOOK-ENTRY ONLY SYSTEM” herein.

The principal or 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 original 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, Redemption Price and interest payments will be made to Cede & Co. by wire transfer in immediately available funds.

Redemption

The Bonds are subject to redemption without premium prior to maturity by written direction of the Institution, in whole or in part at any time in such order of maturity as directed by the Institution at the Make-Whole Redemption Price.

The Make-Whole Redemption Price means the greater of:

- (1) 100% of the principal amount of the Bonds to be redeemed; or
- (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30 day months at the adjusted Treasury Rate (as defined below) plus 50 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date.

The Treasury Rate means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become

publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

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 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 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 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 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

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.

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 make no representation as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NONE OF THE INSTITUTION, THE TRUSTEE NOR THE INITIAL PURCHASERS 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

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 issues of 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, however, 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 such 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 DTC 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.

The Bonds (including beneficial interests in the Bonds) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFERS.” In addition, transfers of beneficial interests in the Bonds will be subject to the applicable rules and procedures of DTC and its Direct and Indirect Participants, which may change from time to time.

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

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

Principal and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the 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, the Initial Purchasers, the Trustee or the Institution subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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 if it is unwilling or unable to continue as depository by giving reasonable notice to the Institution or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, the Bond certificates are required to be printed and delivered. See "Certificated Bonds" below.

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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Institution and the Initial Purchasers believe to be reliable, but the Institution and the Initial Purchasers do not take responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in

writing by such Participant and to have notification made of all interest payments. NONE OF THE INSTITUTION, THE INITIAL PURCHASERS, 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.

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.

NONE OF THE INSTITUTION, THE INITIAL PURCHASERS, 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 if it is unwilling or unable to continue as depository by giving reasonable notice to the Institution. In addition, the Institution may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). 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 Bondholder 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 transfer or exchange any Bond during the fifteen (15) days next preceding the selection of Bonds for redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

PURCHASES OF THE BONDS THROUGH EUROCLEAR AND CLEARSTREAM

The information concerning Clearstream and Euroclear has been derived from information obtained from Clearstream and Euroclear and other sources. Neither the Institution nor the Initial Purchasers make any representation or warranty regarding the accuracy or completeness thereof.

General

The Bonds initially will be registered in the name of Cede & Co. as registered owner and nominee for DTC, which will act as securities depository for the Bonds. Purchases of the Bonds will be in book-entry form only, as more fully described below. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depositories, which, in turn, hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC. Citibank, N.A. acts as the U.S. depository for Clearstream and the Euroclear Operator (as defined below) acts as the U.S. Depository for Euroclear.

The Institution cannot and does not give any assurances that DTC Participants (defined above), Clearstream, Clearstream customers, Euroclear or Euroclear Participants (defined below) will distribute to the Beneficial Owners (defined above) of the Bonds: (i) payments of principal and interest payments (including redemption payments) with respect to the Bonds, (ii) confirmation of ownership interest in the Bonds; or (iii) notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC, the Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants will serve and act in the manner described in this Official Statement.

The Institution will have no responsibility or obligations to DTC, the Participants, Euroclear, Euroclear Participants, Clearstream, Clearstream customers or the Beneficial Owners with respect to: (i) the accuracy of any records maintained by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants; (ii) the payment by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any amount due to any Beneficial Owner in respect of principal and interest payments (including redemption payments) on the Bonds; (iii) the delivery by DTC or any DTC Participants, Clearstream, Clearstream customers, Euroclear or Euroclear Participants of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the Bonds; or (iv) any consent given or other action taken by DTC as registered holder of the Bonds.

Clearstream

Clearstream International is the product of the merger of Deutsche Börse Clearing AG and Cedel International, a European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has five subsidiaries including Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in

accounts of Clearstream customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in any of 41 currencies, including United States Dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement off internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in over 39 countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance de Secteur Financier, “CSSF,” which supervises Luxembourg banks. Clearstream’s customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream has approximately 2500 customers located in over 100 countries, including all major European countries, Canada and the United States. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream. Clearstream has established an electronic bridge with the Operator of Euroclear in Brussels to facilitate settlement of trades between Clearstream and Euroclear.

Clearing and settlement

Clearstream is an International Central Securities Depository providing, as its core services, the clearance and settlement of transactions in global and international securities and domestic securities traded across borders.

These services are carried out by means of a computer-based book-entry system operated from Luxembourg on behalf of Clearstream by Clearstream Services.

Euroclear System

The Euroclear System (“Euroclear”) was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between the clients of Euroclear Bank S.A/N.V. (“Euroclear Participants”) through simultaneous electronic book-entry delivery against payment. This system eliminates the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear is owned by Euroclear plc and operated through a license agreement by Euroclear Bank S.A/N.V., a bank incorporated under the laws of the Kingdom of Belgium (the “Euroclear Operator”). Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. All Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. The Euroclear Operator establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific

certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of, or relationship with persons holding through Euroclear Participants.

This information about DTC, Clearstream, Luxembourg and Euroclear has been provided by each of them for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Initial Settlement; Distributions; Actions Upon Behalf of Owners

All of the Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream and the Euroclear Operator acts as depository for Euroclear (the "U.S. Depositories").

Holders of the Bonds may hold their Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems.

Investors electing to hold their Bonds through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Securities will be credited to the securities custody accounts of Euroclear or Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the Bonds held beneficially through Clearstream will be credited to the cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the Bonds held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations.

Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the Bonds on behalf of a Clearstream customer or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the U.S. Depository's ability to effect such actions on its behalf through DTC.

Secondary Market Trading

Secondary market trading between Participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

Secondary market trading between Euroclear Participants and/or Clearstream customers will be settled using the procedures applicable to conventional Eurobonds in same-day funds.

When securities are to be transferred from the account of a Participant (other than U.S. Depositories) to the account of a Euroclear Participant or a Clearstream customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, as the case may be, will instruct its U.S. Depository to receive the securities against payment. Its U.S. Depository will then make payment to the Participant's account against delivery of the securities. After settlement has been completed, the securities will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream customers' accounts. Credit for the securities will appear on the next day (European time) and cash debit will be back-valued to, and the interest on the Bonds will accrue from the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (i.e., the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Euroclear Participants and Clearstream customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream. Under this approach, they may take on credit exposure to Euroclear or Clearstream until the securities are credited to their accounts one day later.

As an alternative, if Euroclear or Clearstream has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear Participants or Clearstream customers purchasing securities would incur overdraft charges for one day, assuming they cleared the overdraft when the securities were credited to their accounts. However, interest on the securities would accrue from the value date. Therefore, in many cases, the investment income on securities earned during that one day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds.

Because the settlement is taking place during New York business hours, Participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear Participants or Clearstream customers. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the Participant, a cross-market transaction will settle no differently from a trade between two Participants.

Due to time zone differences in their favor, Euroclear Participants and Clearstream customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another Participant's. In these cases, Euroclear will instruct its U.S. Depository to credit the securities to the Participant's account against payment. The payment will then be reflected in the account of the Euroclear Participant or Clearstream customer the following business day, and receipt of the cash proceeds in the Euroclear Participants' or Clearstream customers' accounts will be back-valued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear Participant or Clearstream customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value

date (i.e., the trade fails), receipt of the cash proceeds in the Euroclear Participant's or Clearstream customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change

Although DTC, Clearstream and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC and its Participants, Clearstream and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

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 FINANCIAL REPORT FISCAL YEAR 2008" attached hereto. Moreover, the Institution is not restricted by the

Indenture or otherwise from incurring additional indebtedness. Such additional indebtedness, if incurred, 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 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 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 to pay at maturity certain portions of taxable commercial paper notes issued by the Institution, for other eligible corporate purposes (including working capital expenses of the Institution and certain payments to be made by the Institution to terminate certain interest rate swap agreements) and to pay costs of issuance. 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.

The Bonds should not be treated as issued with original issue discount (“OID”) for U.S. federal income tax purposes because the stated 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.

The Institution has the option to repurchase the Bonds at a premium to the issue price (subject to certain limitations). Under special rules governing this type of unconditional option, because the exercise of the option would not decrease the yield on the Bonds, the Institution will be deemed not to exercise the option, and the possibility of this redemption premium will not affect the amount of income recognized by U.S. Holders in advance of receipt of any such redemption premium.

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.

Defeasance of the Bonds. Defeasance of any Bond may result in a reissuance thereof, in which event a U.S. Holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the U.S. Holder’s adjusted tax basis in the Bond.

Information Reporting and Backup Withholding. 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 at the current rate of 28% (subject to future adjustment) 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 paid as backup withholding 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 Institution or its paying agent, if any.

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 will 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 Institution or its paying agent, if any, 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 Institution or its paying agent, if any, 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 Institution or its paying agent, if any, 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 Institution 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 Institution or its paying agent, if any, a valid IRS Form W-8BEN certifying, under penalties of perjury, its status as a non-U.S. person, (ii) has furnished to the Institution or its paying agent, if any, 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 Initial Purchasers listed on the cover hereof for whom Goldman, Sachs & Co. is acting as representative, and the Initial Purchasers have agreed to purchase the Bonds from the Institution at an aggregate discount of \$8,750,000 from the public offering price set forth on the cover page hereof.

The Initial Purchasers are committed to take and pay for all of the Bonds being offered, if any are taken. The initial offering price is set forth on the cover page of this Offering Memorandum. After the Bonds are released for sale, the Initial Purchasers may change the offering price and other selling terms. The offering of the Bonds by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

The Bonds have not been and will not be registered under the Securities Act. Each Initial Purchaser has agreed that it will only offer or sell the Bonds (A) in the United States to Qualified Institutional Buyers in reliance on Rule 144A under the Securities Act, or (B) outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. Terms used above have the meanings given to them by Rule 144A and Regulation S under the Securities Act.

In connection with sales outside the United States, the Initial Purchasers have agreed that they will not offer, sell or deliver the Bonds to, or for the account or benefit of, U.S. persons (i) as part of the Initial Purchasers' distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering or the date the Bonds are originally issued. The Initial Purchasers will send to each dealer to whom it sells such Bonds during such 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, with respect to Bonds initially sold pursuant to Regulation S, until 40 days after the period referred to above, an offer or sale of such Bonds within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Bonds are a new issue of securities with no established trading market. The Institution has been advised by the Initial Purchasers that the Initial Purchasers intend to make a market in the Bonds but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Bonds.

In connection with the offering, the Initial Purchasers may purchase and sell Bonds in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the Initial Purchasers of a greater number of Bonds than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Bonds while the offering is in progress.

The Initial Purchasers also may impose a penalty bid. This occurs when a particular Initial Purchaser repays to the other Initial Purchasers a portion of the underwriting discount received by it because Goldman, Sachs & Co. or its affiliates have repurchased Bonds sold by or for the account of such Initial Purchaser in stabilizing or short covering transactions.

These activities by the Initial Purchasers, as well as other purchases by the Initial Purchasers for their own accounts, may stabilize, maintain or otherwise affect the market price of the Bonds. As a result, the price of the Bonds may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Initial Purchasers at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Institution has agreed to indemnify the several Initial Purchasers against certain liabilities, including liabilities under the Securities Act.

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

The Initial Purchasers 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 Initial Purchasers.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Bonds to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Bonds to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- (d) in any other circumstances which do not require the publication by the Institution of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Bonds to the public” in relation to any Bonds in any Relevant Member State means the communication in any form and

by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each Initial Purchaser has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA would not, if the Institution was not an authorized person, apply to the Institution; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The Bonds may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Bonds may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares,

debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Bonds under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each Initial Purchaser has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFERS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Bonds offered hereby.

Each purchaser of the Bonds offered hereby will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

1. In the case of Bonds sold in reliance on Rule 144A (the "Rule 144A Bonds"), the purchaser of such Rule 144A Bonds (i) is a Qualified Institutional Buyer, (ii) is aware that the sale of Bonds to it is being made in reliance on Rule 144A, (iii) is acquiring the Rule 144A Bonds for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion, and in a principal amount, of not less than U.S. \$100,000 and (iv) will provide notice of the transfer restrictions described in "NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFERS" to any subsequent transferees. In the case of Bonds sold in reliance on Regulation S (the "Regulation S Bonds"), the purchaser of such Regulation S Bonds is not a U.S. person, as such term is defined in Rule 902 under the Securities Act, and is purchasing the Bonds in accordance with Regulation S.

2. The purchaser understands that the Bonds have not been and will not be registered or qualified under the Securities Act or any applicable state securities laws or the securities laws of any other jurisdiction, are being offered only in a transaction not involving any public offering, and may be reoffered, resold or pledged or otherwise transferred only (A)(i) to a person whom the purchaser reasonably believes is a Qualified Institutional Buyer and is purchasing for its own account or for the account of a Qualified Institutional Buyer as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A or (ii) to a non-U.S. Person in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (iv) pursuant to another available exemption from registration under the Securities Act if accompanied by a written opinion of counsel satisfactory to the Trustee and the Institution and (B) in accordance with all applicable securities laws of the

states of the United States. Before any interest in a Rule 144A Bond may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Bond, the transferor will be required to provide the transfer agent with a written certification (in the form provided in the Indenture) as to compliance with the transfer restrictions described herein. The purchaser understands and agrees that any purported transfer of Bonds to a purchaser that does not comply with the requirements of this paragraph (2) will be null and void *ab initio*. The purchaser further understands that the Institution has the right to compel any beneficial owner of Bonds that is a U.S. Person and is not a Qualified Institutional Buyer to sell its interest in such Bonds, or the Institution may sell such Bonds on behalf of such owner.

3. The purchaser is not purchasing the Bonds with a view toward the resale, distribution or other disposition thereof in violation of the Securities Act. The purchaser understands that an investment in the Bonds involves certain risks, including the risk of loss of its entire investment in the Bonds under certain circumstances. The purchaser has had access to such financial and other information concerning the Institution and the Bonds as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Bonds, including an opportunity to request the information to which it is entitled under Rule 144A, if applicable.

4. Pursuant to the terms of the Indenture, unless otherwise determined by the Institution in accordance with the Indenture, the Rule 144 A Bonds will bear a legend to the following effect:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”) AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (4) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM REGISTRATION UNDER THE ACT IF ACCOMPANIED BY A WRITTEN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION SATISFACTORY TO THE TRUSTEE AND THE INSTITUTION REGARDING THE AVAILABILITY OF SUCH EXEMPTION OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. THE HOLDER HEREOF AGREES THAT IT WILL DELIVER TO EACH PERSON WHOM THIS BOND OR AN INTEREST HEREIN IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND

5. Pursuant to the terms of the Indenture, unless otherwise determined by the Institution in accordance with the Indenture, the Regulation S Bonds will bear a legend to the following effect:

THIS BOND HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS UNLESS REGISTERED UNDER THE ACT OR EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE ACT.

6. Pursuant to the terms of the Indenture, unless otherwise determined by the Institution in accordance with the Indenture and in addition to any other legends required thereunder, the Rule 144 A Global Bonds and Regulation S Global Bonds will bear a legend to the following effect:

THIS BOND IS A GLOBAL BOND WITHIN THE MEANING OF THE INDENTURE REFERRED TO IN THIS BOND AND IS REGISTERED IN THE NAME OF A DEPOSITORY OR A NOMINEE OF A DEPOSITORY. THIS BOND IS NOT EXCHANGEABLE FOR BONDS REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITORY OR ITS NOMINEE EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS BOND (OTHER THAN A TRANSFER OF THIS BOND AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY) MAY BE REGISTERED EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (A NEW YORK CORPORATION) (“DTC”) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

7. The purchaser understands that the Institution, the Trustee, the Initial Purchaser and their counsel will rely upon the accuracy and truth of the foregoing representations, and the purchaser hereby consents to such reliance.

8. As further described below under “AVAILABLE INFORMATION,” in the event that Rule 144A is not available at the time of any specific resale, purchasers of the Bonds who wish to sell their Bonds would need to effect such transfers pursuant to another exemption from registration under the Securities Act, subject to the Institution’s and the Trustee’s right prior to any such offer, sale or transfer to require the delivery of a written opinion of counsel addressed to the Institution and the Trustee, certification and/or other information satisfactory to each of them as to

the availability of such exemption. Such owners should consult their own advisors to determine whether other exemptions are available at the time.

9. The Bonds may be sold without restriction under the provisions of Rule 144 of the Securities Act after a minimum of one year has elapsed between the later of the date of the acquisition of the Bonds from the Institution, or from an affiliate of the Institution, and any resale of the Bonds.

EACH PURCHASER OF THE BONDS MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN EACH JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS SUCH BONDS OR POSSESSES OR DISTRIBUTES THIS OFFERING MEMORANDUM AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED FOR THE PURCHASE, OFFER OR SALE BY IT OF SUCH BONDS UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTIONS TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE INSTITUTION, OR THEIR AGENTS SPECIFIED HEREIN SHALL HAVE ANY RESPONSIBILITY THEREFOR.

AVAILABLE INFORMATION

As described under “NOTICE TO INVESTORS; RESTRICTIONS ON TRANSFERS” above, the Bonds have not been and will not be registered under the Securities Act of 1933 and are being offered and sold in the United States only to Qualified Institutional Buyers in reliance on Rule 144A under the Securities Act. Rule 144A provides that the owner of a Bond and a prospective purchaser designated by such owner have the right to obtain from the Institution, upon request of such owner or such prospective purchaser, certain limited information about the Institution that is reasonably current in relation to the date of resale. The Institution will comply with the information requirements of Rule 144A by providing holders or prospective purchasers with annual financial information and has not agreed to provide any further financial information under the Indenture or otherwise. The Institution typically makes its annual financial information available within four months after the end of its fiscal year. The Institution believes that in the context of the customary disclosure practices for issuers of its type and the nature of the securities being offered its annual financial information satisfies the “reasonably current” information requirements set forth in Rule 144A. In the event that the then-current annual financial report does not satisfy the “reasonably current” requirements of Rule 144A at the time of any specific resale, purchasers of the Bonds who wish to sell their Bonds would need to effect such transfers pursuant to another exemption from registration under the Securities Act, subject to the Institution’s and the Trustee’s right prior to any such offer, sale or transfer to require the delivery of an opinion of counsel, certification and/or other information satisfactory to each of them as to the availability of such exemption. Such owners should consult their own advisors to determine whether other exemptions are available at the time. The Bonds may be sold without restriction under the provisions of Rule 144 of the Securities Act after a minimum of one year has elapsed between the later of the date of the acquisition of the Bonds from the Institution, or from an affiliate of the Institution, and any resale of the Bonds.

In addition, consistent with the continuing disclosure requirements of SEC Rule 15c2-12 relating to its tax-exempt publicly traded bonds and with industry practice for institutions of higher education, the Institution files an annual financial report with all nationally recognized

municipal securities information repositories (“NRMSIRs”) pursuant to continuing disclosure agreements relating to its previous debt offerings. These annual financial reports are currently available from the NRMSIRs. The Institution routinely posts its annual report containing financial information on its website (<http://www.harvard.edu>). The information contained in the Institution’s website is not a part of this Offering Memorandum and is not incorporated by reference herein.

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 Initial Purchasers 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 years ended June 30, 2008 and 2007. These financial statements should be read in their entirety.

INDEPENDENT ACCOUNTANTS

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

RATINGS

Moody’s Investors Service (“Moody’s”) has assigned a rating of “Aaa” and Standard & Poor’s Ratings Inc. (“Standard & Poor’s”) has 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 Initial Purchasers 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 and Chief Financial Officer

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APPENDIX A

CERTAIN INFORMATION CONCERNING THE UNIVERSITY

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HARVARD UNIVERSITY

MASSACHUSETTS HALL
CAMBRIDGE, MASSACHUSETTS 02138

APPENDIX A

December 5, 2008

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

The University

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

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

President and Fellows of Harvard College

Drew Gilpin Faust

President

Harvard University

James F. Rothenberg

President, Capital Research and Management Company

Treasurer of Harvard College

James R. Houghton

Chairman Emeritus
Corning Incorporated

Nannerl O. Keohane

Former President
Duke University and Wellesley College

Patricia A. King

Professor of Law, Medicine, Ethics and Public Policy
The Georgetown University Law Center

Robert D. Reischauer

President
The Urban Institute

Robert E. Rubin

Director and Senior Counselor
Citigroup Inc.

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

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

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

Administration

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

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

Harvard Management Company

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

Student Applications and Enrollment

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

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

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

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

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

Tuition, Fees and Room & Board

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

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

Student Financial Aid

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

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

On December 10, 2007, President Faust and Dean of the Faculty of Arts and Sciences Michael D. Smith announced an overhaul of financial aid policies designed to

make Harvard College more affordable for families across the income spectrum. The new initiative focuses on ensuring greater affordability for middle- and upper-middle-income families through major enhancements to grant aid, the elimination of student loans, and the removal of home equity from financial aid calculations.

Faculty and Staff

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

Labor Relations

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

Future Facilities

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

Litigation

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

Additional Information

As of December 5, 2008, the outstanding balance of the University's tax-exempt commercial paper program was \$752,642,000 out of an authorized limit of \$1,000,000,000. As of December 5, 2008, the outstanding balance of the University's previously issued taxable commercial paper program was \$872,587,000 out of an authorized limit of \$2,000,000,000.

On December 3, 2008, the Massachusetts Health and Educational Facilities Authority issued a Preliminary Official Statement with respect to a proposed tax-exempt fixed rate bond offering for the University with an anticipated par amount of \$600,000,000* (the "Series 2009A Bonds"). The Series 2009A Bonds are anticipated to be issued in January, 2009 and proceeds are expected to refinance certain outstanding tax-exempt variable rate demand bond issues and portions of the outstanding tax-exempt commercial paper program, and finance certain swap termination payments. After giving effect to the refinancing of various debt issues from the proceeds of the Series 2009A Bonds and the Bonds being issued under this Offering Memorandum, the University estimates that the aggregate outstanding debt would be approximately \$6.0 billion.

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

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

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* Preliminary, subject to change.

This Appendix A and the accompanying “Financial Report Fiscal Year 2008” appended as Appendix B are submitted for inclusion in the Offering Memorandum relating to the President and Fellows of Harvard College, Taxable Bonds, Series 2008D.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

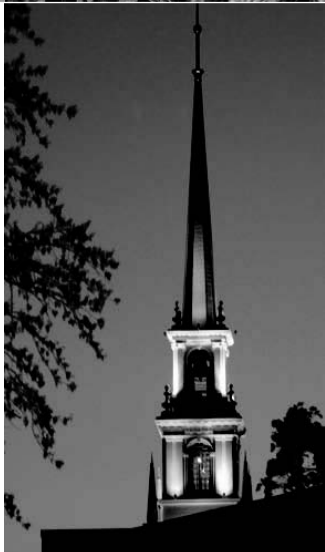
By: /s/ Daniel Shore
Vice President for Finance and Chief Financial Officer

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APPENDIX B

HARVARD UNIVERSITY FINANCIAL REPORT FISCAL YEAR 2008

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HARVARD UNIVERSITY FINANCIAL REPORT

FISCAL YEAR **2008**





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

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

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

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

Message from the President

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

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

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

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

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

Sincerely,



Drew Gilpin Faust
PRESIDENT

October 5, 2008

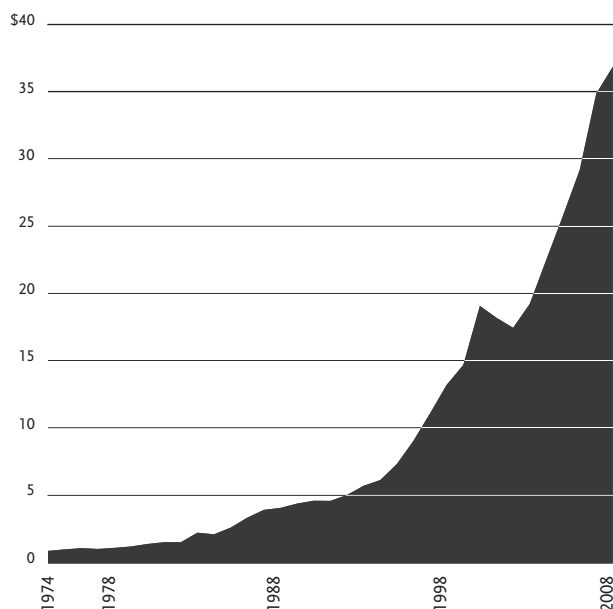
Financial highlights

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

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

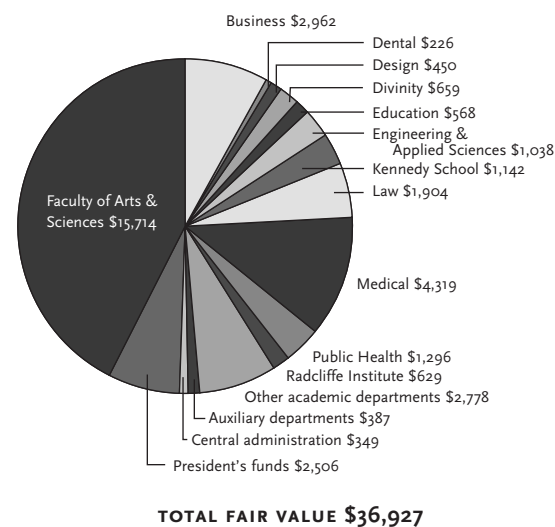
ENDOWMENT GROWTH

In billions of dollars



FAIR VALUE OF ENDOWMENT FUNDS AS OF JUNE 30, 2008

In millions of dollars



ENDOWMENT PERFORMANCE

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

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

SUMMARY OF FINANCIAL RESULTS

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

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

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

OPERATING RESULTS

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

Student income

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

Sponsored support

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

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

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

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

Gifts for current use

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

Investment income

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

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

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

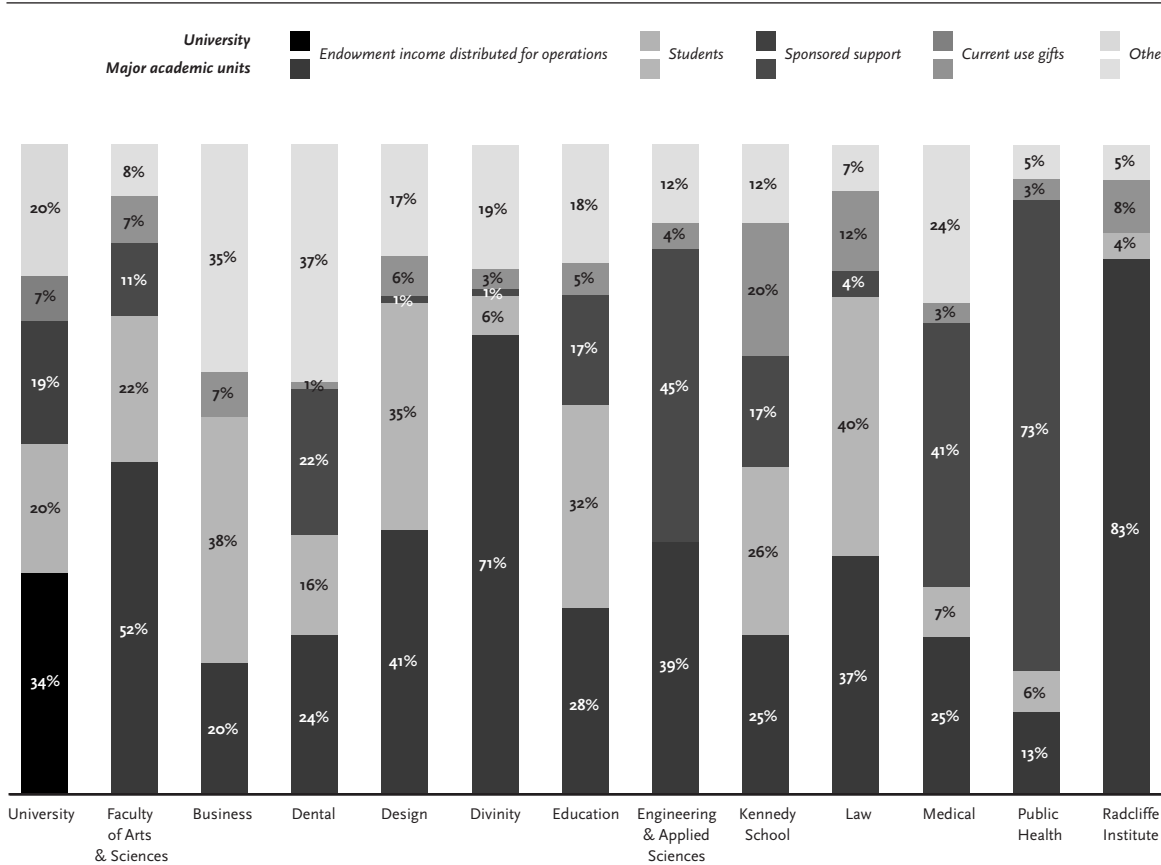
Other income

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

Compensation

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

FISCAL 2008 SOURCES OF REVENUE

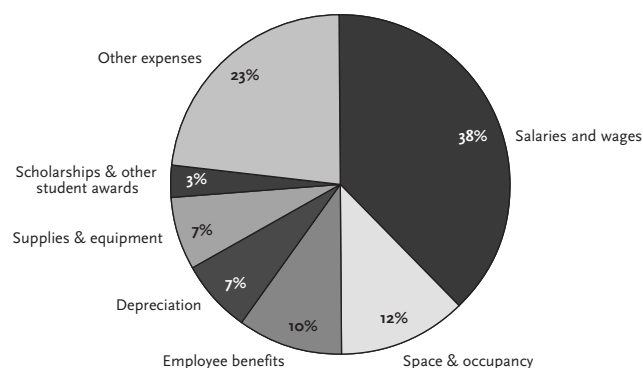


Inflationary trends in health care costs continue to be a concern and have driven the University to develop a multi-year health care strategy. In fiscal 2008, a new pharmacy benefits manager was adopted, with associated cost savings of approximately \$6.6 million anticipated over the next three years.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

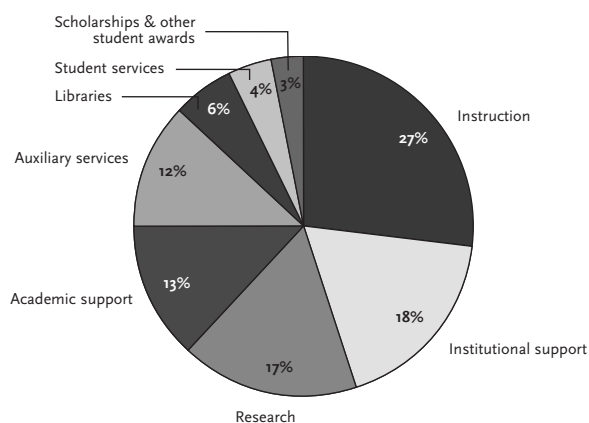
Financial aid

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

FISCAL 2008 OPERATING EXPENSES



FISCAL 2008 FUNCTIONAL EXPENSES



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

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

Supplies and equipment

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

Space and occupancy

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

Other expenses

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

CAPITAL ACTIVITIES

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

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

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

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


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

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

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



Daniel S. Shore
ACTING CHIEF FINANCIAL OFFICER



James F. Rothenberg
TREASURER

October 5, 2008

Annual Report of the Harvard Management Company

Harvard Management Company (HMC) is a wholly owned subsidiary of Harvard University that is governed by a Board of Directors (the “Board”) appointed by the President and Fellows of Harvard College (the “Corporation”). Established in 1974, HMC is charged with management of the University’s endowment, pension assets, working capital, and deferred-giving balances. As of June 30, 2008, HMC managed a total of \$45.2 billion, \$43.0 billion of which consisted of the General Investment Account (GIA). The GIA is a pooled fund consisting primarily of \$36.9 billion of endowment assets. The information presented in this unaudited report relates to the GIA.

PERFORMANCE OF THE GENERAL INVESTMENT ACCOUNT

The GIA experienced solid absolute and relative performance for the year ended June 30, 2008. The total investment return amounted to 8.6%, calculated on a time-weighted basis, net of all fees and expenses, and including the impact of revenue-sharing agreements with certain fund managers. After including gifts, distributions, and other changes, the total value of the GIA increased from \$40.8 billion as of June 30, 2007 to \$43.0 billion as of June 30, 2008. The endowment, the largest component of the GIA, grew from \$34.9 billion to \$36.9 billion during the same period.

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

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

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

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

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

RESULTS BY ASSET CLASS

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

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

Domestic equity

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

Foreign equity

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

Emerging market equity

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

Private equity

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

Domestic bonds

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

Foreign bonds

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

Inflation-indexed bonds

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

High-yield

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

Liquid commodities

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

Timber/agricultural land

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

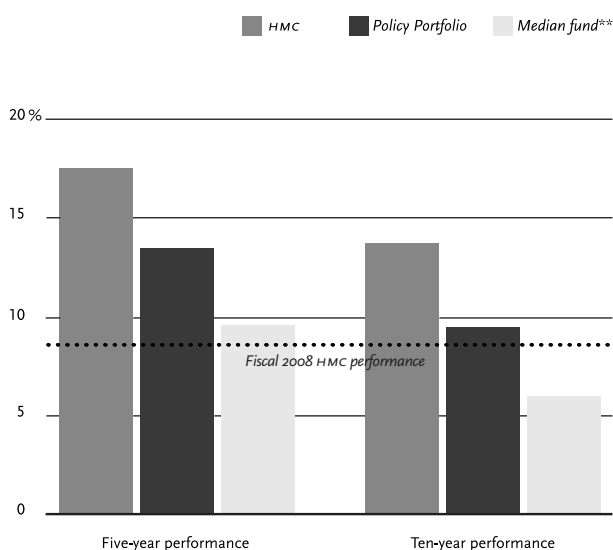
Real estate

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

Absolute return

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

FIVE- AND TEN-YEAR ANNUALIZED AVERAGE RETURNS*



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

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

ANNUALIZED AVERAGE RETURNS FOR THE PERIODS ENDED JUNE 30, 2008

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

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

THE HISTORICAL CONTEXT

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

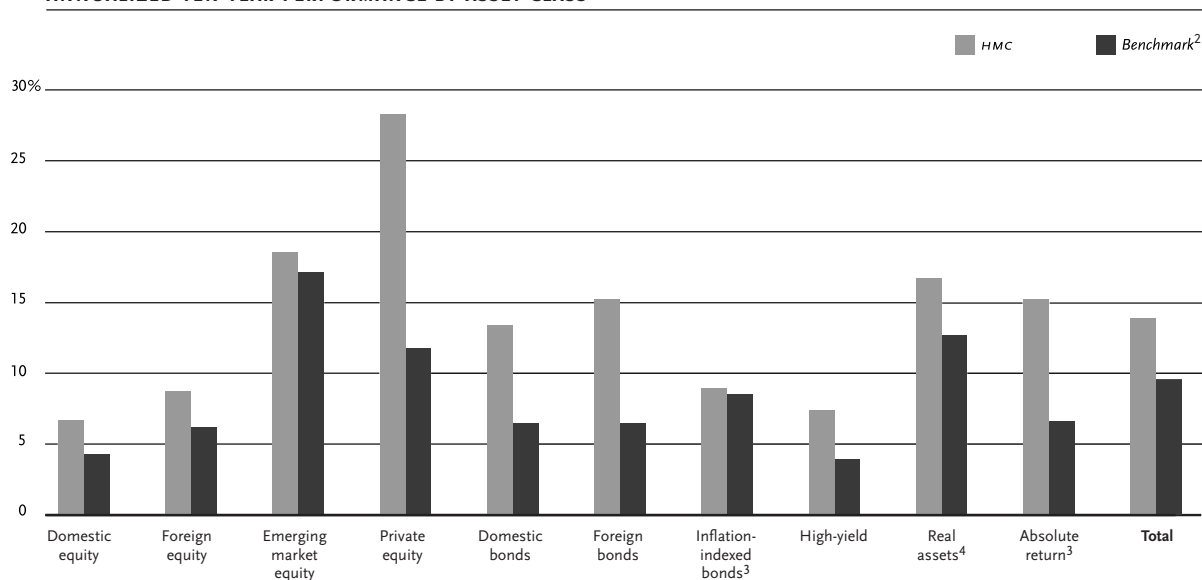
- First, by significantly outperforming the University's long-term real return target over time, the GIA has taken advantage of the opportunities present in the market to build an important margin for the future.
- Second, by having access to a mix of both internal and external investment management capabilities, the long-term outperformance margin relative to the Policy Portfolio is solidly ahead of the 1.0% level that has historically been deemed a realistic long-term objective.
- Third, relative to the long-term average for institutional funds, the GIA has maintained an outperformance margin that continues to exceed the target of 1.5%.

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

INVESTMENT MANAGEMENT PHILOSOPHY AND PROCESS

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

ANNUALIZED TEN-YEAR PERFORMANCE BY ASSET CLASS¹



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

² Individual benchmarks are representative of each asset class and are approved by the Board.

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

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

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

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

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

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

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

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

RISK MANAGEMENT

Appropriate controls and procedures are integral to mitigating risks and effectively managing the GIA. Accordingly, HMC maintains an approach aimed at monitoring and managing the factors pertaining to credit, liquidity, market, and operational risks. (A summary description of these different risk factors may be found on page 14.) Since no single indicator can reasonably be expected to capture the host of risk factors that affect the GIA, HMC utilizes a matrix approach that is subject to regular reviews by both the Board of Directors and management of HMC.

HMC's risk-mitigating measures include the use of risk limits as they pertain to investment strategies, single names (i.e., individual investments), and managers; assessment of correlations across investment strategies, managers, and asset classes; and counterparty credit evaluations, among others. By necessity, risk management is a dynamic process that takes into account general market developments, the proliferation of new instruments, and the changing nature of correlations across asset classes. This process is supported by consistent efforts to ensure that HMC has the required information inputs and management system, the appropriate analytical tools, and a robust set of checks and balances.

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

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

THE ROAD AHEAD

In the exhibit shown below, changes to the Policy Portfolio for fiscal 2009 have been detailed. In addition to the usual risk/return optimization methodologies, the changes reflect secular themes, which include:

- a need to think globally about asset allocation and investment alternatives;
- issues relating to flow of funds, barriers to entry, and other industry dynamics in the private equity and hedge fund asset classes;
- risk of continued inflationary pressures – exacerbated by supply and demand considerations for various commodities; and
- HMC's expectations for a continuation of the process of financial deleveraging that began in the summer of 2007.

Entering fiscal 2009, many questions remain as to the likely depth, breadth, and duration of current market deleveraging and associated disruptions. During these challenging times, the importance of HMC's hedging and risk management strategies continues to be emphasized. HMC is quite cognizant of the near-term risk of sub-par investment returns from many of the asset classes in which HMC and other investors participate. HMC is also

Effective July 1, 2008, Jane L. Mendillo (one of the undersigned) re-joined HMC to serve as President and CEO. Jane had served since February 2002 as the Chief Investment Officer of Wellesley College. Having spent nearly 15 years at HMC earlier in her career, Jane has worked directly on many parts of the HMC portfolio and is very familiar with the hybrid investment model that has been so critical to HMC's success.

HISTORICAL EVOLUTION OF THE POLICY PORTFOLIO (SELECTED YEARS)

[illegible]

COMPONENTS OF RISK

MARKET RISK is defined as the sensitivity of income and capital to variations in interest rates, foreign exchange rates, equity prices, commodity prices, and other market-driven rates and prices. Market risk also considers the correlation risk among investments and the liquidity of the underlying positions. Market risk is measured as the potential gain or loss resulting from a price change at a given probability over a specific time period; this is also described as value at risk. Value at risk is monitored and reviewed frequently by the Board of Directors and senior management to ensure that exposures are consistent with approved limits and guidelines. Stress and scenario tests are also conducted to determine how potential changes in market conditions could impact the fair value of the portfolio.

CREDIT RISK is defined as the risk of loss arising from a counterparty's failure or inability to meet payment or performance terms of a contract. HMC manages credit risk by establishing strict credit policies, setting concentration limits and approval procedures, and monitoring exposure continuously. HMC enters into arrangements with counterparties believed to be creditworthy and requires collateral to the maximum extent possible. Limits are established for each counterparty based on their creditworthiness.

LIQUIDITY RISK considers the risk of loss arising from the inability to meet funding commitments. The objective of liquidity risk management is to ensure the ability to meet the endowment's financial obligations. Effective management of liquidity risk requires the ability to project and understand all cash flows and potential future commitments. It also involves the identifica-

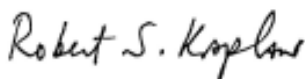
tion and prioritization of sources of liquidity. Cash is actively managed by a centralized staff responsible for understanding funding requirements and evaluating sources of liquidity. Liquidity measures are employed to ensure that the University maintains adequate liquidity and is prepared for periods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

OPERATIONAL RISK is the risk of loss resulting from inadequate or failed internal processes or systems, errors by employees, or external events. The management of these risks is primarily the responsibility of the business line managers in each functional area. HMC manages operational risk by identifying areas of risk, monitoring compliance, promoting best practices, and implementing internal controls and robust systems. The results of these activities are reviewed frequently by senior management.

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

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

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



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



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

October 5, 2008

Report of Independent Auditors

To the Board of Overseers of Harvard College:

In our opinion, the accompanying Balance Sheet and the related Statements of Changes in Net Assets with General Operating Account Detail, Changes in Net Assets of the Endowment, and Cash Flows, present fairly, in all material respects, the financial position of Harvard University (the "University") as of June 30, 2008, and the changes in its net assets of the General Operating Account and endowment funds and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's fiscal 2007 financial statements, and in our report dated September 30, 2007, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

PricewaterhouseCoopers LLP

October 5, 2008

BALANCE SHEETS

with summarized financial information as of June 30, 2007

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

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

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

STATEMENTS OF CHANGES IN NET ASSETS WITH GENERAL OPERATING ACCOUNT DETAIL

with summarized financial information for the year ended June 30, 2007

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

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

STATEMENTS OF CHANGES IN NET ASSETS OF THE ENDOWMENT

with summarized financial information for the year ended June 30, 2007

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

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

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

1. UNIVERSITY ORGANIZATION

Harvard University (the “University”) is a private, not-for-profit institution of higher education with approximately 7,100 undergraduate and 12,870 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, the School of Engineering and Applied Sciences, the Division of Continuing Education, ten graduate and professional Schools, the Radcliffe Institute for Advanced Study, a variety of research museums and institutes, and an extensive library system to support the teaching and research activities of the Harvard community. The President and

Fellows of Harvard College (the “Corporation”), a governing board of the University, has oversight responsibility for all of the University’s financial affairs. The Corporation delegates substantial authority to the Schools and departments for the management of their individual resources and operations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements present the activities of Harvard University as a whole, including significant affiliated organizations controlled by the University.

The financial statements include certain prior year summarized comparative information in total, not by net asset classification. This information is not presented in sufficient detail to conform with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2007, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to current year presentation, including reclassifying gifts of securities from operating and financing to investing activities in the *Statements of Cash Flows*.

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

Net asset classifications

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

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

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

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

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned by restricted donor funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

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

Net revenue/(deficit)

Revenues earned, expenses incurred, and income distributed for operations for the purpose of teaching, conducting research, and the other programs and services of the University are the components of “Net revenue/(deficit)” in the *Statements of Changes in Net Assets with General Operating Account Detail*. Net revenue/ (deficit) is the measure of the University’s operating result.

Collections

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

Insurance programs

The University, together with the Harvard-affiliated teaching hospitals, has formed a captive insurance company, Controlled Risk Insurance Company (CRICO), to provide limited professional liability, general liability, and medical malpractice insurance for its shareholders. The University self insures a portion of its professional liability and general liability programs and maintains a reserve for liability claims. CRICO provides medical malpractice coverage with no deductible for Harvard University Health Services, the Harvard School of Dental Medicine, and the Harvard School of Public Health. The University also maintains self-insurance programs and reserves for claims for automobile liability, property, and workers’ compensation; these programs are supplemented with commercial excess insurance above the University’s self-insured limit. In addition, the University is self insured for unemployment, the primary senior health plan, and all health and dental plans for active employees. The University’s claims liabilities are recognized as incurred, including claims that have been incurred but not reported, and are included in operating expenses.

Tax-exempt status

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

Use of estimates

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

New accounting pronouncements

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

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

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

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

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

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

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

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

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

3. INVESTMENTS

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

A) Investments are presented at fair value based on trade date positions as of June 30. Instruments listed or traded on a securities exchange are valued at the last sale price on the primary exchange where the security is traded. Restrictions that are attached to a security are factored into the valuation of that security, reflective of the estimated impact of those restrictions. Non-exchange traded debt instruments are primarily valued using independent pricing services or by broker/dealers who actively make markets in these securities. Over-the-counter positions such as options contracts, forward contracts, exchange agreements, interest rate cap and floor agreements, and credit default swaps are primarily valued using models with externally verifiable inputs, or by using independent broker quotes. Investments in most asset classes are at least partially achieved through external managers. The majority of these external investments are not readily marketable and are valued utilizing the most current information provided by the general partner, subject to assessments that the value is representative of fair value. Direct private equity and real asset investments are valued using discounted cash flow and other industry standard methodologies. Where applicable, independent appraisers and engineers assist in the valuation. These values are determined under the direction of, and subject to approval by, the Valuation Committee of the HMC Board of Directors.

B) The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The accounting

policies considered potentially significant in this respect are the valuation of derivative instruments, absolute return funds and special situations, private equities, and certain real assets. Values for these instruments are typically estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. Estimates developed using these methods are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Estimates, by their nature, are based on judgment and available information.

Changes in assumptions could have a significant effect on the fair value of these instruments. Actual results could differ from these estimates and could have a material impact on the financial statements.

C) The University amortizes bond premiums and accretes bond discounts when cash collection is expected.

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

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

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

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

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

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

	2008	2007
Investment portfolio, at fair value:		
Pooled general investment assets ¹	\$ 50,000,889	\$ 45,536,634
Other investments ²	1,086,414	1,093,529
Fair value of interest rate exchange agreements	(330,359)	(13,275)
Total investment portfolio, at fair value	50,756,944	46,616,888
Fair value of securities pledged to counterparties	6,398,168	5,341,587
Securities lending and other liabilities associated with the investment portfolio	(13,350,801)	(10,125,587)
TOTAL INVESTMENTS³	\$ 43,804,311	\$ 41,832,888

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

	2008	2007
Pooled general investment net assets:		
General Operating Account	\$ 5,493,884	\$ 5,264,544
Endowment	36,193,970	34,251,729
Split interest agreements	1,065,564	986,906
Other internally designated funds	294,838	249,455
Total pooled general investment net assets	43,048,256	40,752,634
Other investments ²	1,086,414	1,093,529
Fair value of interest rate exchange agreements	(330,359)	(13,275)
TOTAL INVESTMENTS³	\$ 43,804,311	\$ 41,832,888

¹ Excludes securities pledged to counterparties.

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

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

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

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

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

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

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

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

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

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the global equity, fixed-income, real estate, commodities, and private equity markets. The core investment portfolio is structured to closely mirror the market exposures defined by the Policy Portfolio. The Policy Portfolio is the long-term asset mix that is considered most likely to meet the University's long-term return goals with the appropriate level of risk. It serves as the benchmark against which the performance of the pooled general investments is measured. In addition, the University seeks to enhance the returns of certain asset classes through strategies designed to capture mispricings in specific financial instruments without changing the fundamental risk profile of the core investment account. These strategies generally involve several distinct but highly correlated financial instruments that are weighted to neutralize market risk. Depending on the characteristics of the financial instruments, the specific positions within a given strategy may be recorded in the asset or liability sections of the table on page 25.

The table on page 25 includes securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities. The fair value of collateral pledged to counterparties that cannot be sold or repledged was \$910.7 million and \$747.0 million as of June 30, 2008 and 2007, respectively. The fair value of collateral accepted by the University was \$3,927.6 million and \$2,822.6 million as of June 30, 2008 and 2007, respectively. The portion of this collateral that was sold or repledged was \$1,112.0 million and \$1,046.2 million as of

June 30, 2008 and 2007, respectively. The cost of the net investments (the sum of total investments, total financial instruments purchased under hedge transactions, and total financial instruments sold, not yet purchased, under hedge transactions) was \$38,148.3 million and \$34,872.9 million as of June 30, 2008 and 2007, respectively.

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

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

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

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

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

³ The collateral advanced under security borrowing agreements is in the form of cash.

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

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

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

The University uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement. These include futures, options, credit default swaps, exchange agreements, interest rate cap and floor agreements, and forward purchase and sale agreements, which are exchange traded or executed over the counter. These instruments are used in both the core portfolio to gain exposure to a given asset class and in the arbitrage strategies, with the goal of enhancing the returns of certain asset classes without increasing the market risk to the underlying asset class. The market risk of a strategy is influenced by the relationship between the financial instruments with off-balance sheet risk and the offsetting positions

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

The following table summarizes the market exposure (expressed in delta-weighted notional amounts), net ending fair value, net average fair value (an average of the five quarters ending June 30, 2008), and credit exposure relative to the financial instruments with off-balance sheet risk as of June 30, 2008 (in thousands of dollars):

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

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

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

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

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

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

Financial instruments with off-balance sheet risk are recorded in the table on page 25 at fair value. Fair value is a function of the characteristics of the individual financial instruments and their relationship to current market conditions, as well as the length of time each instrument has been held. For example, domestic futures contracts, which expire periodically, are subject to daily cash settlements, and as such, the end-of-day fair value of these contracts is zero. In contrast, interest rate exchange agreements may be held for the life of a strategy and may reflect significant unrealized gains and losses depending on the change in value since the inception of the contract. Market exposure represents the notional value of the off-balance sheet instrument adjusted for its correlation to its underlying index or asset. Fair value and market exposure do not accurately measure risk. A more appropriate indicator of market risk is the net exposure of all positions (on- and off-balance sheet) expressed in market-risk equivalents, or value at risk.

Financial instruments with off-balance sheet risk involve counterparty credit exposure. The policy of the University is to require collateral to the maximum extent possible under normal trading practices. Collateral is moved on a daily basis as required by fluctuations in the market. The collateral is generally in the form of debt obligations issued by the U.S. Treasury. In the event of counterparty default, the University has the right to use the collateral to offset the loss associated with the replacements of the agreements. The University enters into arrangements only with counterparties believed to be creditworthy. Specific credit limits are established for counterparties based on their individual credit ratings. Credit limits are monitored daily and are adjusted according to policy.

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

The University has also entered into agreements with private equity and real estate partnerships and external investment managers, which include commitments to make periodic cash contributions totaling approximately \$11,028.3 million through fiscal 2018.

4. RECEIVABLES

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

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

5. NOTES RECEIVABLE

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

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

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled \$58.9 million and \$57.1 million as of June 30, 2008 and 2007, respectively, and are classified as liabilities in the *Balance Sheets*. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

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

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

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

6. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are recorded as pledges receivable in the years promised at the present value of expected cash flows, net of an allowance for uncollectible pledges. Pledges receivable included in the financial statements as of June 30, 2008 and 2007 are expected to be realized as follows (in thousands of dollars):

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

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

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

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

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

7. FIXED ASSETS

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

The major categories of fixed assets as of June 30, 2008 and 2007 are summarized as follows (in thousands of dollars):

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

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

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

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

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

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

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

8. ENDOWMENT

The University's endowment consists of approximately 11,600 separate funds established over many years for a wide variety of purposes. Endowment fund balances, including funds functioning as endowment, are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds book value. Although funds functioning as endowment are not subject to permanent donor restrictions, decisions to spend their principal require the approval of the Corporation. All but a small fraction of the endowment is invested in the GIA (*Note 3*).

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

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

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

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

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

Endowment investments are managed to achieve the maximum long-term total return. As a result of this emphasis on total return, the proportion of endowment distributions funded by dividend and interest income or by capital gains may vary significantly from year to year. Amounts withdrawn

from endowment capital gains to fund the fiscal 2008 and 2007 distributions totaled \$919.8 million and \$709.7 million, respectively.

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

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

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

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

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

9. SPLIT INTEREST AGREEMENTS

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

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

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

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

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

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

10. BONDS AND NOTES PAYABLE

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

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

* All commercial paper will mature in fiscal 2009.

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

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

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

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

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

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

Based on quoted market prices, the estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was \$4,022.3 million and \$3,813.3 million as of June 30, 2008 and 2007, respectively.

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

Interest rate exchange agreements

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

The fair value of interest rate exchange agreements is the estimated amount that the University would have received or (paid), including accrued interest, to terminate the agreements on the dates of the *Balance Sheets*, taking into account the creditworthiness of the underlying counterparties. The notional amount and fair value of interest rate exchange agreements were \$3,524.7 million and \$(330.4) million, respectively, as of June 30, 2008 and \$3,533.9 million and \$(13.3) million, respectively, as of June 30, 2007.

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

11. EMPLOYEE BENEFITS

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

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

Pension benefits

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

In accordance with ERISA requirements, the University has established a trust to hold plan assets for its defined benefit pension plans. The fair values of the trust's assets were \$879.9 million and \$897.0 million as of June 30, 2008 and 2007, respectively. In addition, the University internally designated and invested \$40.0 million and \$36.7 million as of June 30, 2008 and 2007, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of \$94.7 million and \$87.4 million for fiscal 2008 and 2007, respectively.

Postretirement health benefits

The University provides defined benefit postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2008, the University had internally designated and invested \$248.3 million to fund the postretirement health benefit accrued liability of \$607.4 million. As of June 30, 2007, the University had internally designated and invested \$206.7 million to fund an accrued liability of \$545.7 million.

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

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

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

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

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

	2009 Target	2008 Actual	2007 Actual
Asset allocation by category for pension plan:			
Equity securities	45.0%	48.7%	48.1%
Fixed-income securities	17.0	19.6	21.1
Real estate	9.0	6.8	6.9
Other	29.0	24.9	23.9
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

"Other" asset category consists of absolute return funds, commodities, and cash.

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

	Pension benefits		Postretirement health benefits	
	2008	2007	2008	2007
Funded status, end of year:				
Fair value of plan assets	\$ 879,869	\$ 896,964		
Benefit obligations	(586,309)	(593,682)	\$ (607,427)	\$ (545,698)
FUNDED STATUS, end of year	293,560	303,282	(607,427)	(545,698)
Amounts recognized in the <i>Balance Sheets</i> :				
Net retirement assets	\$ 293,560	\$ 303,282		
Accrued retirement obligations			\$ (607,427)	\$ (545,698)
TOTAL AMOUNTS RECOGNIZED IN THE BALANCE SHEETS	\$ 293,560	\$ 303,282	\$ (607,427)	\$ (545,698)
Amounts recognized in unrestricted net assets:				
Net actuarial (gain)/loss	\$ (304,565)	\$ (320,749)	\$ (2,988)	\$ (14,521)
Prior service (credit)/cost	(14,829)	(19,215)	4,974	6,770
Transition (asset)/obligation			30,311	36,373
TOTAL AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS	\$ (319,394)	\$ (339,964)	\$ 32,297	\$ 28,622
Amounts recognized in changes in unrestricted net assets:				
FAS 158 change in accounting principle		\$ 339,964		\$ (28,622)
New prior service (credit)/cost	\$ 11			
New net actuarial (gain)/loss	11,728		\$ 11,253	
Amortization of:				
transition asset/(obligation)			(6,062)	
prior service credit/(cost)	4,375		(1,796)	
actuarial gain/(loss)	4,456		280	
TOTAL AMOUNTS RECOGNIZED IN CHANGES IN UNRESTRICTED NET ASSETS	\$ 20,570	\$ 339,964	\$ 3,675	\$ (28,622)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. GENERAL OPERATING ACCOUNT

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

The major components of the GOA net asset balances as of June 30, 2008 and 2007 are summarized as follows (in thousands of dollars):

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

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

13. STUDENT FINANCIAL AID

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

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

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

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

14. SPONSORED SUPPORT

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored projects to the University were \$535.0 million and \$514.8 million in fiscal 2008 and 2007, respectively. The University's principal source of federal sponsored funds is the Department of Health and Human Services. The University also has many non-federal sources of sponsored awards and grants, including corporations, foundations, state and local governments, foreign governments, and research institutes.

Sponsored grants and contracts normally provide for the recovery of direct and indirect costs. The University recognizes revenue associated with direct costs as the related costs are

incurred. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government and other sponsors. Predetermined federal indirect cost rates have been established for the University Area, the Medical School (including the School of Dental Medicine), and the School of Public Health through fiscal 2010. Funds received for federally sponsored activity are subject to audit.

15. GIFTS

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

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

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

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

16. OTHER OPERATING INCOME

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

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

17. OTHER EXPENSES

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

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

18. FUNCTIONAL CLASSIFICATION OF EXPENSES

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

Expenses by functional classification for the years ended June 30, 2008 and 2007 were as follows (in thousands of dollars):

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

19. COMMITMENTS AND CONTINGENCIES

Sponsored support

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

Broad Institute

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

In connection with the founding of the Broad Institute, the University and MIT agreed to strive to jointly raise \$20.0 million per year in gifts and non-federal grants and awards to support the Broad Institute's endeavors. In the event this

fundraising goal is not reached, the University has agreed to provide MIT with a portion of the shortfall, subject to certain conditions. The University will make payments and record the corresponding expenses as these conditions are met. The University's obligation for such payments will not exceed \$32.5 million over the initial five-year term, or \$60.0 million in total if the term is extended for a second five years. The University had a commitment of \$6.5 million as of June 30, 2008 and 2007, which is recorded in "Accounts payable" in the *Balance Sheets*.

The University and MIT will equally share certain laboratory construction fit-out costs for the Broad Institute's building. The University's portion of these costs is limited to \$8.0 million. There were no payments to MIT under this commitment during fiscal 2008; fiscal 2007 payments totaled \$1.2 million. If the University's participation in the collaboration terminates under certain circumstances, the University may also be obligated to pay MIT up to \$5.0 million to compensate MIT for expenses incurred in connection with the lease for the building. In addition, the University expects to share with MIT in ongoing facilities improvement costs of approximately \$4.0 million per year for up to ten years. Payments to MIT under this commitment totaled \$0.7 million and \$1.1 million in fiscal 2008 and 2007, respectively. Some of the University's contributions to the fit-out and ongoing capital costs have been and will continue to be reimbursed in the future through indirect cost recoveries associated with the Broad Institute's grant funding.

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

Lease commitments

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

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

Fixed asset-related commitments

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

Environmental remediation

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

General

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

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

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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.

“Agent Members” means members of, or direct or indirect participants in, the Securities Depository.

“Authorized Denomination” means \$100,000 or any integral multiple of \$1,000 in excess of \$100,000.

“Authorized Representative” means the Institution’s Vice President for Finance, Assistant Treasurer, Director of Treasury Operations, 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 2008D 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.

“Clearstream” means Clearstream International.

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

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

“*Designated Office*” means the Designated Office of the Trustee, which as of the date of the Indenture is located at One Federal Street, Boston, Massachusetts, 02110, 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.

“*Euroclear*” means Euroclear System.

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

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

“*Global Bonds*” means the bonds by that name established pursuant to 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.

“*Institutional Accredited Investor*” means an institution that is an “accredited investor” as that term is defined in Rule 501(a)(1), (2), (3) or (7) promulgated under the Securities Act.

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

“*Interest Payment Date*” means January 15 and July 15 of each year, commencing July 15, 2009.

“*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.

“*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.

“*Non-U.S. Person*” means a Person who is not a U.S. person, as defined in Regulation S.

“*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 and the Institution.

“*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.

“*Physical Bond*” means certificated Bonds in registered form in substantially the form set forth in the Indenture.

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

“*Principal Payment Date*” means January 15, 2039, the date of final maturity of the Bonds.

“*Private Placement Legend*” means the legend initially set forth on the Rule 144A Bonds and other Bonds that are Restricted Bonds in the form set forth in the Indenture.

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

“*Qualified Institutional Buyer*” or “*QIB*” shall have the meaning specified in Rule 144A promulgated under the Securities Act.

“*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 first (1st) 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.

“*Redemption Price*” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

“*Regulation S*” means Regulation S promulgated under the Securities Act.

“*Regulation S Global Bond*” means the bond by that name established pursuant to the Indenture.

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

“Restricted Bond” has the same meaning as “Restricted Security” set forth in Rule 144(a)(3) promulgated under the Securities Act; *provided*, that the Trustee and/or the Institution shall be entitled to request and conclusively rely upon an Opinion of Counsel with respect to whether any Bond is a Restricted Bond.

“Restricted Global Bond” means the bond by that name established pursuant to the Indenture.

“Restricted Period” means the period by that name established pursuant to the Indenture.

“Rule 144” means Rule 144 promulgated under the Securities Act.

“Rule 144A” means Rule 144A promulgated under the Securities Act.

“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 Act” means the Securities Act of 1933, as amended.

“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.

“Trustee” means U.S. Bank National Association, 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., Morgan Stanley & Co. Incorporated, and JP Morgan Securities 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 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 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 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) will be used to pay at maturity certain portions of taxable commercial paper notes issued by the Institution, for other eligible corporate purposes of the Institution, including working capital expenses and certain payments to be made by the Institution to terminate certain interest rate swap agreements, and to pay costs of issuance of the Bonds.

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 on all Bonds then Outstanding, 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 on all Bonds then Outstanding, 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 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 refinanced 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.

Use of Securities Depository and Special Transfer Provisions

The Bonds are registered in the book-entry system with certain exceptions and are subject to special transfer provisions as provided in the Indenture.

Redemption Provisions

The Bonds are redeemable prior to maturity at the written direction of the Institution to the Trustee at least forty-five (45) days before the redemption date. Such redemption shall be in accordance with the terms of the Bonds, as a whole or in part on any Business Day in such order of maturity as directed by the Institution at the Make-Whole Redemption Price, as described in the Indenture.

Subject to the provisions of the Indenture, whenever provision is made in this Indenture for the redemption of less than all of the Bonds of any one maturity, the Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption from such maturity 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.

Notice of redemption shall 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 shall also state that on said date there will become due and payable on each of said Bonds the 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 pursuant to the Indenture to any one or more of the securities information services or depositories designated by the Institution, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Trustee to mail notice of redemption pursuant to the Indenture to any one or more of the respective Holders of any Bonds designated for redemption shall 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 notice given pursuant to the Indenture 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 shall 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. Upon surrender of any Bond redeemed in part only, the Institution shall execute (but need not prepare) and the Trustee shall 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 having been duly given as aforesaid, and moneys for payment of the 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 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) shall cease to be entitled to any benefit or security under this Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said

Redemption Price and accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

The Bonds are subject to redemption without premium prior to maturity by written direction of the Institution, in whole or in part at any time in such order of maturity as directed by the Institution at the Make-Whole Redemption Price. The “Make-Whole Redemption Price” is the greater of (1) 100% of the principal amount of the Bonds to be redeemed; and (2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Bonds are to be redeemed, discounted to the date on which the Bonds are to be redeemed on a semi-annual basis assuming a 360-day year consisting of twelve 30-day months at the adjusted Treasury Rate plus 50 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed on the redemption date. “Treasury Rate” means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Particular Covenants

Punctual Payment. The Trustee shall from funds provided by the Institution punctually pay the principal or 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.

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 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; or (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; 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 benefits 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; 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; 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 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 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 any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and 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; and

(B) To the payment of the principal or 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 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 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 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 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 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 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 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 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 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, 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 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

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ROPES & GRAY LLP
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APPENDIX D

December 12, 2008

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 \$1,500,000,000 principal amount of Taxable Bonds, Series 2008D (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 May 1, 2006 (the "Indenture of Trust") between the College and U.S. Bank National Association, as trustee (the "Trustee"), a specimen bond as executed on behalf of the College and authenticated by the Trustee, a certified copy of proceedings of the College authorizing the execution of the Indenture of Trust and certain other documents and the issuance of the Bonds.

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 its 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 and the Bonds are enforceable, each in accordance with its terms, is qualified to the extent that enforcement of the rights and remedies created thereby is subject to (i) general principles of equity, regardless of whether applied in proceedings in equity or at law and (ii) applicable bankruptcy, insolvency, moratorium and other similar laws affecting the enforcement of creditors' rights in general.

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.

President and Fellows of Harvard College
December 12, 2008
Page 3

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

Very truly yours,

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