Financial Review

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THE HBS BUSINESS MODEL

The work of Harvard Business School is sustained by a unique business model. Eighteen percent of the School's revenue comes from MBA tuition, fees, and related student income. More than 50 percent of revenue is generated by Harvard Business Publishing (HBP) and Executive Education, both of which offer products and programs in highly competitive markets. Nearly all of the remaining 30 percent of revenue comes from gifts to HBS, whether in the form of unrestricted current use gifts or distributions from the School's endowment.

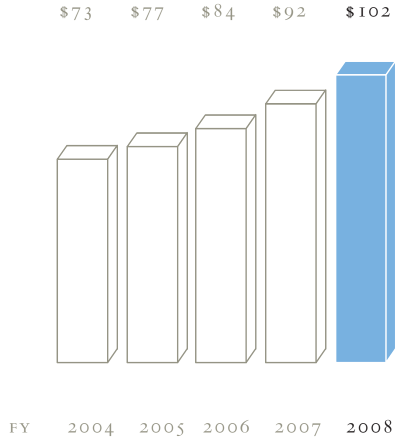
Unlike at other Harvard University schools, faculty at HBS do not seek grants from external sponsors such as government agencies, foundations, and corporations. Instead, their research is funded primarily by the School. Freedom from the constraints associated with outside funding allows faculty to pursue the research opportunities they believe have the greatest potential to create new knowledge.

In a self-sustaining cycle, the intellectual capital produced by the faculty is disseminated globally through Executive Education programs and HBP's portfolio of periodicals, books, cases and teaching materials, and eLearning products, enabling the School to advance the practice of management while generating significant operating margins. Completing the cycle, these margins serve as the mainstay source of funding for the faculty's research.

REVENUES

SUMMARY

Capping a five-year period in which the School's total revenue has grown at a compound annual rate of 8.9 percent, revenue for fiscal 2008 increased by 11.4 percent from the prior year to $451 million. Executive Education and HBP together generated more than half of this $46 million growth, reflecting their success in capturing corporate and academic demand for management education on an increasingly global scale. Driven by strong investment returns, a larger distribution of income from the School's endowment represented $16 million of this year's revenue growth. As in prior years, MBA tuition and fees increased as well, generating an incremental $5 million in revenue.



INVESTMENT IN RESEARCH
(Dollars in millions)

MBA TUITION AND FEES

The School continues to set MBA tuition at a level that recovers rising program delivery costs and investments in initiatives designed to enrich the HBS educational experience. As discussed later in this report, the incremental revenue from rising tuition is largely offset by considerable growth in fellowship spending.

Tuition and fees revenue from the School's core academic program increased to $82 million in fiscal 2008, from $77 million last year. First-year MBA tuition in fiscal 2008 was $41,900—near the midpoint among the 10 comparable schools tracked by HBS—compared with $39,600 last year. MBA tuition and fees declined to 18 percent of the School's total revenue in fiscal 2008, from 19 percent a year earlier.

EXECUTIVE EDUCATION

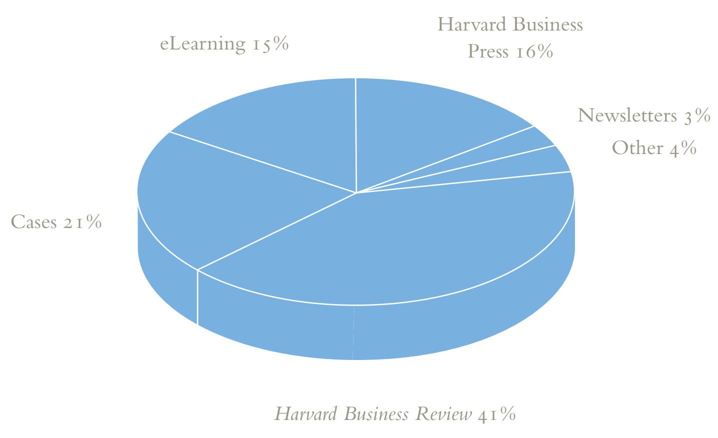
Tuition revenue from executive programs grew by 16.5 percent to $106 million in fiscal 2008, from $91 million last year. Executive Education tuition increased to 23.5 percent of total revenue, from 22.5 percent in fiscal 2007.

Executive Education restructured the Comprehensive Leadership Programs (CLP) portfolio of longer programs—including the Advanced Management Program, the General Management Program, and the Program for Leadership Development—two years ago, and market demand since then has been strong. In response, the School added new sections in two of the CLPs in fiscal 2008. Applications to CLPs grew by 11 percent from last year, and enrollment increased by 20 percent. Executive Education also added courses to its focused program portfolio, and delivered new programs in India.

Applications to the School's executive programs increased by 5.8 percent in fiscal 2008 to more than 12,900. Although total enrollment in fiscal 2008 was essentially level with the prior year, a larger proportion of participants attended the core long programs. The resulting increase in "participant days" drove the double-digit rise in Executive Education revenue for the year.

PUBLISHING

Revenue from HBP's sales of periodicals, books, cases and teaching materials, and eLearning products increased by 8.6 percent in fiscal 2008 to $139 million, from $128 million last year. The publishing operation generated 30.8 percent of the School's total revenue, compared with 31.6 percent in fiscal 2007.



PUBLISHING REVENUES, FY 2008

Harvard Business Publishing continued to produce top-line growth during a challenging time in the publishing industry. The ongoing transition to digital media, combined with the weakening global economy, led to a second consecutive year of declining demand for print advertising across the industry. Revenue from the School's flagship publication, *Harvard Business Review* (*HBR*), was level with fiscal 2007 at $44 million, as continued growth in paid subscriptions and reprint sales was offset by the ongoing decline in print advertising. In addition, sales of Harvard Business Press books were down by 8 percent to $23 million, reflecting the effects of the soft economy in the corporate market, as well as the absence of new blockbuster titles this year.

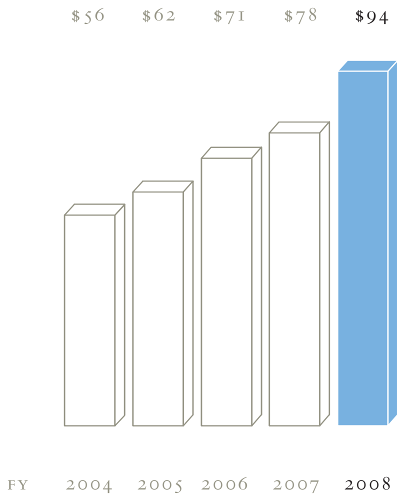
These headwinds were partially offset by HBP's academic business, which continued to produce solid revenue growth. Case and teaching materials revenue rose for the seventh consecutive year to a record $30 million, from $26 million in fiscal 2007. At the same time, HBP continued to make progress on its key strategic initiative to shift its business focus from domestic print publishing to a global digital platform. As a result, sales of eLearning products grew by $7 million, or 46.6 percent, from last year to $22 million, and HBP's total sales outside the United States grew by 14 percent.

GIFTS & ENDOWMENT

The annual distribution of income from the School's endowment, together with revenue from unrestricted current use gifts, accounted for $108 million in funding in fiscal 2008, or 23.9 percent of the School's total revenue. This compares with $95 million in fiscal 2007, or 23.4 percent of total revenue.

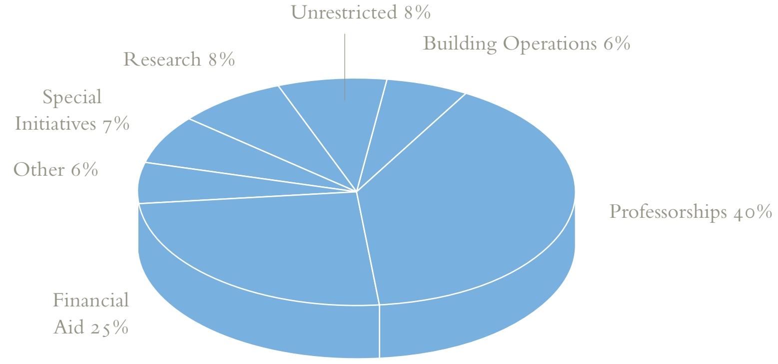
Endowment distributions increased by 20.5 percent, or $16 million, to $94 million in fiscal 2008, from $78 million last year. In each of the five prior years, endowment distributions represented approximately 18 to 19 percent of the School's total revenue. The exceptional growth in fiscal 2008 was made possible by continued strength in the University's investment returns and the University-wide increase in the annual endowment distribution rate.

Unrestricted current use gifts, which have generated $59 million in revenue over the past five years, serve as the primary source of innovation funding at HBS. Since the School's campaign concluded in fiscal 2006, encouraging unrestricted current use giving has been a key fundraising focus. Although unrestricted current use giving declined by $3 million in fiscal 2008, from the record $17 million posted for the prior year, it was the second-highest total in the history of the School.



ENDOWMENT DISTRIBUTION

(Dollars in millions)



ENDOWMENT COMPONENTS, FY 2008

Total cash received from all types of gifts was $51 million in fiscal 2008, compared with $56 million in fiscal 2007. HBS received gifts from more than 12,000 individual donors during the year, including alumni of the School's MBA, Doctoral, and Executive Education programs, as well as other friends of the School. Nearly 30 percent of the School's MBA alumni gave to HBS in fiscal 2008—a remarkable participation rate equal to those seen during the campaign years.

EXPENSES

SUMMARY

The School's total operating expenses increased by $48 million, or 12.8 percent, in fiscal 2008 to $423 million, from $375 million in fiscal 2007.

As in prior years, the School's expense growth in fiscal 2008 was largely driven by variable costs associated with expanding business operations at HBP and Executive Education, as well as spending for fellowships and the faculty's increasingly global research activities. From a financial management perspective, these functional areas transect numerous line items on the School's Statement of Activity and Cash Flows.

For example, faculty research expense includes a significant portion of faculty salaries and benefits expense, as well as direct costs for research support staff, travel, and IT services. Also included in the cost of faculty research are allocated expenses for the School's network of global research centers, as well as library resources, campus facilities, technology, and administration. When viewed in this way, the School's annual investment in faculty research has increased at a compound annual rate of 7.2 percent for the past five years, growing to $102 million in fiscal 2008, from $72 million in fiscal 2003.

In HBP and Executive Education, expenses include direct costs for staff compensation, specialized outside professional services in areas such as IT and marketing, and residence expenses for executive program participants. These expenses have risen in line with growth in the HBP and Executive Education product and program portfolios, and in the physical scope of their operations. At the same time, by successfully controlling their fixed costs, both operations have delivered margins on the incremental revenue. In turn, HBS has reinvested these margins to fund the School's teaching and research activities.

SALARIES AND BENEFITS

Faculty and staff compensation is the School's largest expense. Amid increasing global demand for outstanding faculty, and with plans to expand the size of the faculty over the next decade, HBS recruits aggressively. The ability to offer competitive salary and benefits packages is crucial to success in the market for academic talent.

While growing the faculty remains a priority at the School, the total number of faculty, as measured in full-time equivalents (FTEs), can increase or decrease in any given year as a result of retirements, departures, and normal fluctuations in recruiting activity. In fiscal 2008, faculty FTEs grew to 219 from 206 last year, leading to a corresponding increase in compensation expense. Salaries and benefits for faculty and their research associates represented approximately 40 percent of the School's employee compensation costs in fiscal 2008, or approximately 19 percent of total expenses.

Including faculty and administrative staff, total employee salaries and benefits expense has risen at a compound annual rate of 8.8 percent over the past five years. This figure disproportionately reflects fiscal 2008 results, as the School's total compensation expense grew by $27 million, or 15.1 percent, from the prior year, to $206 million, and represented 48.6 percent of total operating expenses. The major cost drivers this year were the faculty and staff FTE increases, annual employee compensation increases across the School, and one-time expensing of both historic vacation liability and faculty early retirement incentives.

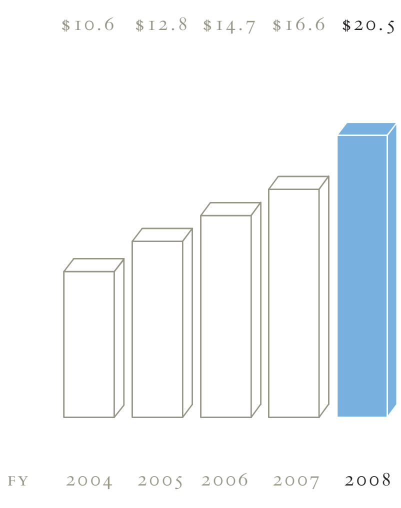
HBS tightly controls administrative staff levels, adding staff positions only when they are critical to achieving the School's teaching and research objectives. In fiscal 2008, administrative FTEs increased by 37 to a total of 1,146, from 1,109 FTEs at the end of fiscal 2007. Although the operational footprint of the School has expanded significantly in the past five years, the number of administrative FTEs has grown at a compound annual rate of only 1.5 percent.

FELLOWSHIPS

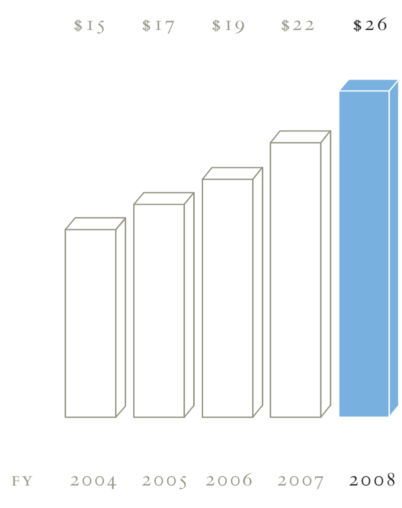
MBA and Doctoral fellowship spending, or financial aid, is treated as an expense line item on the School's Statement of Activity and Cash Flows. However, increasing financial aid support for students is a long-standing strategic objective at HBS.

The generosity of the School's alumni and friends, coupled with strong investment returns on the HBS endowment, have significantly increased the size of the School's endowed financial aid funds in the past five years. Total MBA and Doctoral fellowship spending has risen at a compound annual rate of 13.2 percent during this period. In fiscal 2008, the School's total financial aid expense grew by $4 million, or 18.2 percent, from the prior year, to $26 million.

Since fiscal 2003, the average two-year MBA fellowship award has grown from $21,500 for the Class of 2004 to $45,000 for the Class of 2009. HBS will continue seeking ways to assist MBA students in reducing their debt at graduation, thus broadening their career opportunities in both the private and the public sectors.



MBA FELLOWSHIP SPENDING
(Dollars in millions)



TOTAL FELLOWSHIP SPENDING
(Dollars in millions)

PUBLISHING AND PRINTING

Publishing and printing expense includes HBP production costs as well as a small amount of spending to produce the School's other printed materials and publications. Primarily reflecting higher costs for printing and paper, marketing, and author royalties at HBP, publishing and printing expenses rose by $2 million to $53 million in fiscal 2008.

SPACE AND OCCUPANCY

The HBS campus includes 33 buildings encompassing more than 1.5 million square feet of occupied space. The School is solely responsible for managing these physical facilities; campus maintenance and construction are not centralized University responsibilities as they are at many other large academic institutions. Space and occupancy expense includes costs related to maintaining and operating the School's buildings and associated campus infrastructure.

In addition, facilities improvement and renovation costs that do not qualify as capital expenses are generally categorized as space and occupancy costs. Also included are expenses related to dining facilities and other campus services, as well as costs associated with leased space that houses HBP's operations. Residence expenses for executive program participants—equivalent to cost of goods sold in Executive Education—also are reported under space and occupancy.

In the past five years, space and occupancy expenses have risen at a compound annual rate of 6.2 percent. The increase in fiscal 2008 was $2 million, or 5 percent, driven primarily by higher campus-wide dining, parking, and security costs, as well as the aforementioned HBP and Executive Education expenses.

SUPPLIES AND EQUIPMENT

The School maintains rigorous control over expenses for supplies and equipment. Spending in this area increased by $2 million, or 22.2 percent, in fiscal 2008, primarily reflecting variable costs incurred by HBP and Executive Education.

PROFESSIONAL SERVICES

Professional services expenses increased by 16 percent to $29 million in fiscal 2008, from $25 million in fiscal 2007. Harvard Business Publishing is engaged in a multiyear project to reconstruct its IT infrastructure. After focusing on deployment of a new platform to support its migration toward digital product offerings last year, in fiscal 2008 HBP invested in new IT systems to support internal processes ranging from customer relationship management at the front end of the business to general ledger at the back end. The School also made a significant investment in upgrading the MBA prematriculation platform. As in fiscal 2007, much of the increase in professional services expense this year reflected greater use of outsourcing to supplement the School's internal capabilities in these IT deployments.

UNIVERSITY ASSESSMENTS

Expenses for University assessments are primarily calculated as a percent of the School's total expenses on a two-year lagged basis. These assessments cover essential services provided to HBS by the University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. University assessments increased by $1 million in fiscal 2008 to $12 million.

DEBT SERVICE

The School's debt service, which consists of interest payments to the University on building and other University debt, remained level in fiscal 2008 at $7 million. In fiscal 2007, debt service increased by 75 percent from the prior year because of the accounting transfer of large amounts of debt from construction-in-progress to placed-in-service. This transfer reflected the completion of three of the School's largest recent capital projects: the restoration and renovation of Baker Library | Bloomberg Center and the renovation of Hamilton and Aldrich Halls. Debt service expense remained level in fiscal 2008 because of an increase in new borrowings to finance the renovation of MBA residence space in Gallatin Hall.

OTHER EXPENSES

Other expenses rose by 14.3 percent to $37 million in fiscal 2008, from $31 million last year. Increased international travel for the faculty, broader MBA recruiting outreach, direct costs for new executive programs, and expenses related to the School's Centennial activities were the major reasons for the growth in other expenses this year.

CASH FROM OPERATIONS

HBS relies on cash from operations, as well as endowment gifts and appreciation, to cover capital expenses and any related debt service over the long term. Cash from operations varies according to the health of the economy as well as the School's spending priorities. Levels of revenue from HBP and Executive Education, income from investment returns on the endowment, and unrestricted giving all are sensitive to economic conditions.

Meanwhile, HBS adds faculty, manages its research activity, and invests in its revenue-generating businesses and campus infrastructure on a long-term, strategic basis. While generally tracking these activities, the School's expenses also reflect strategic opportunities as they arise. As a result, cash from operations can fluctuate widely from year to year.

In 2002, the launch of The Campaign for Harvard Business School coincided with the start of an economic recovery, producing strong growth in revenue from gifts, HBP, and Executive Education. The School's operating cash flow nearly doubled year-over-year in fiscal 2004 to $15 million, and reached a plateau of $24 million and $23 million in fiscal 2005 and 2006, respectively. Cash from operations increased to $30 million in fiscal 2007, primarily as a result of the larger endowment distribution and income from unrestricted current use gifts.

In fiscal 2008, cash from operations declined by $2 million from the previous year to $28 million, reflecting a mix of factors. Growth in the endowment distribution and strong revenue from Executive Education were offset by slower growth in HBP, a decline in unrestricted current use giving, and higher operating expenses. The increase in expenses was largely attributable to growth in the size of the faculty, variable costs in HBP, and a one-time expensing of the historic vacation liability.

USE OF ENDOWMENT PRINCIPAL AND APPRECIATION

HBS regularly funds key initiatives with principal and related capital appreciation of gifts made in prior years intended for these purposes. These funds vary from year to year depending on the type of gifts available, the purposes for which these gifts were given, the status of the School's initiatives related to these purposes, and the available appreciation.

After remaining essentially level for the prior three years at $14 million, use of endowment principal and appreciation grew to $41 million in fiscal 2008. The increase reflected the School's $26 million share of a University-wide strategic decapitalization from the endowment, drawn from appreciation resulting from the Harvard endowment's strong investment returns in recent years.

CASH AVAILABLE FOR CAPITAL ACTIVITIES

Fiscal 2008 marked the second consecutive year in which the School's cash flow exceeded net capital expenses. Although capital investment in the HBS campus doubled from fiscal 2007 to $40 million, cash before capital activities grew to $69 million, driven by the increase in use of endowment principal and appreciation related to the strategic decapitalization.

Looking forward, HBS plans to begin implementing its long-term campus plan in fiscal 2010. At that point, the School expects to see a return to the previous pattern of cash from operations falling short of net capital expenses. As in the past, HBS will ensure through its financial planning that sufficient resources—including unrestricted reserves—are available to service the School's debt and execute on its capital investment strategy.

NET CAPITAL EXPENSES

The most recent period of significant investment in the HBS campus concluded in fiscal 2005, when capital expenses reached $79 million. The School's capital expenses declined to $49 million in fiscal 2006 and to $20 million in fiscal 2007 as the major projects initiated earlier in the decade neared completion. In fiscal 2008, capital expenses rose to $40 million, largely reflecting the $18 million invested in completing the majority of the renovations of MBA residence space in Gallatin Hall.

Other large capital projects in fiscal 2008 included the completion of a project to renew classroom space for executive programs in McCollum Hall, and the installation of new life safety systems in Morris Hall. The School also completed a multiyear upgrading of the Technology Operations Center and the replacement of an outdated and inefficient heating and air-conditioning infrastructure. Capital expenses for these projects totaled approximately $8 million.

To protect the long-term value of the physical plant, HBS continues to invest in the renewal and maintenance of its buildings, facilities, and IT infrastructure. In fiscal 2008, the School's aggregate spending on these numerous smaller projects totaled $7.6 million.

The $40 million in fiscal 2008 capital expenses was funded with $13 million in internally generated cash, substantially all of the School's $22 million in new borrowings, and $5 million in gifts for capital projects. In fiscal 2007, sources of funding for capital expenditures included $10 million in internally generated cash, new borrowings of $7 million, and $3 million in gift payments for specific capital projects.

CHANGES IN DEBT & OTHER

HBS uses debt strategically as a means of optimizing its capital structure. The School borrows only on qualified capital projects, carefully considering the interest rate environment and expectations for the performance of the Harvard endowment. The School's policy is to borrow when market conditions make accepting the incremental debt service obligation preferable to using endowment principal and appreciation.

New borrowings rose to $22 million in fiscal 2008, from $7 million a year earlier, primarily to finance the Gallatin Hall renovation. Debt principal payments rose to $9 million, from $7 million in fiscal 2007, reflecting scheduled payments as well as payments made possible by large restricted gifts received during the year.

Other non-reserve activity was $33 million in fiscal 2008, compared with $22 million in fiscal 2007. In fiscal 2008, as in the prior year, HBS transferred $25 million of current use reserves to the unrestricted endowment reserve established several years ago in order to capture higher investment returns. Reflecting these additional funds and the performance of the endowment, the market value of this reserve grew to $126 million at June 30, 2008, from $94 million a year earlier. Other non-reserve activity for fiscal 2008 also reflected a one-time, non-cash accounting adjustment of $8 million required by the University.

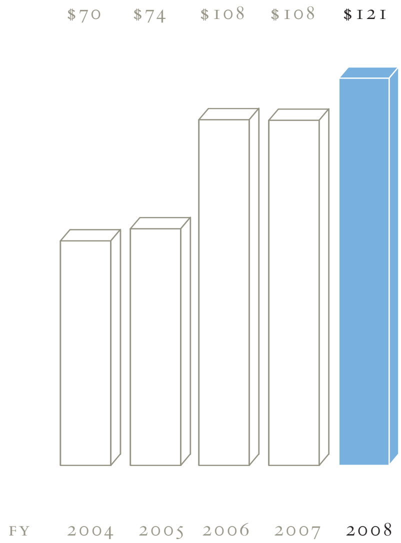
The School's balance sheet remains modestly leveraged. The University functions as a banker for HBS and the other Harvard schools, allowing HBS to borrow on a triple-A-rated tax-exempt basis. In fiscal 2008, the School's building debt increased by $13 million to $121 million, primarily reflecting construction-in-progress payments for the Gallatin Hall renewal project. Other University debt—mainly consisting of repayment obligations to Harvard for mortgage loans made by the School as a faculty recruiting incentive—rose by $3 million to $29 million.

Total debt has averaged only 3.7 percent of total assets for the past five years. The interest portion of the School's debt service amounted to 1.7 percent of total operating expenses in fiscal 2008, compared with 1.9 percent in fiscal 2007. At June 30, 2008, the School's building debt-to-asset ratio was 3.3 percent.

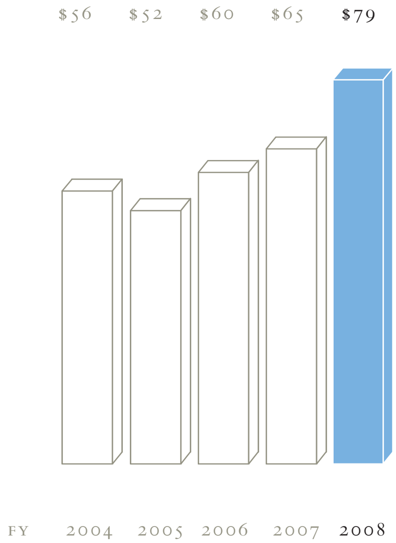
UNRESTRICTED RESERVES BALANCE

HBS relies on unrestricted reserves as a resource for responding to unforeseen opportunities and—as part of the mix with gifts, internally generated cash, and debt—to finance capital projects. In fiscal 2008, the increase in cash available for capital activities outstripped growth in capital expenses. As a result, after the $20 million impact of net debt activity and other non-reserve activity, the School's year-end reserves balance grew by $14 million to $79 million.

The decade beginning in fiscal 2010 promises to be a period of increased capital investment as HBS moves ahead with a comprehensive campus plan recently developed in concert with the University. Although the School's reserves have grown in the past few years, these funds are crucial not only for capital projects but also for pursuing emerging opportunities to advance the HBS educational mission. As a consequence, HBS plans to rely primarily on gifts for capital projects, as well as new borrowings, to finance long-term campus expansion.



BUILDING DEBT OUTSTANDING
(Dollars in millions)



UNRESTRICTED RESERVES
(Dollars in millions)

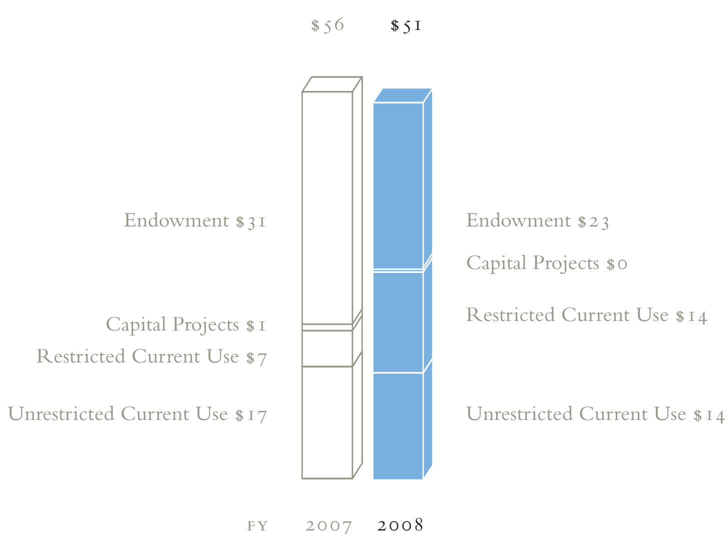
Managing the School's Gifts and Endowment

Endowment distributions and unrestricted current use gifts have become increasingly important to the HBS business model over the past five years. Since fiscal 2003, revenue from these combined sources has grown at a compound annual rate of more than 12 percent, from $61 million to $108 million, or 24 percent of total revenue, in fiscal 2008.

The HBS endowment, along with those of the other Harvard University schools, is managed by Harvard Management Company (HMC), a subsidiary governed and wholly owned by the University. Fiscal 2008 was a year of solid performance for the Harvard endowment, despite the capital market turmoil that deepened as the year unfolded.

The University endowment's total investment return for fiscal 2008 was +8.6 percent, net of all fees and expenses. At June 30, 2008, the School's endowment, plus current use funds, represented 8 percent of the total University endowment. The value of these funds was nearly $3 billion, up $150 million from a year earlier, after taking into account the annual distribution, strategic decapitalization, and receipt of new gifts.

Like other Harvard University schools, HBS raises its own endowment and current use funds, and independently budgets the use of its endowment distributions to support operations according to the terms of each gift. The School's endowment consists of more than 1,000 discrete funds established over the years by individual donors, corporations, foundations, and reunion classes.



GIFTS RECEIVED

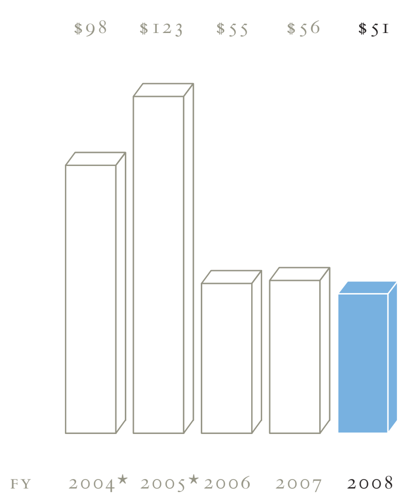
(Dollars in millions)

Although most endowment gifts are made in perpetuity, allowing little or no access to principal, some allow access to principal to provide the School flexibility in achieving the purposes for which they were designated. In addition, HBS occasionally draws upon capital appreciation associated with prior-year gifts. Funds from these decapitalizations are used to support key initiatives in keeping with donor intentions.

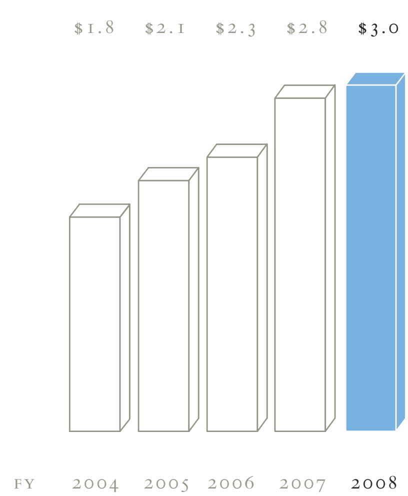
The primary function of the HBS endowment is to provide the long-term financial stability that allows the School to weather periods of economic turbulence and remain focused on its strategic mission. The University determines the amount that can safely be drawn from the endowment to spend in any given year. This calculation is based on a disciplined annual payout policy that reflects HMC's projections of future endowment returns.

The University's goals are to provide a reliable stream of operating income, to protect the purchasing power of the original gifts from erosion by inflation, and to build capital for the future by achieving superior risk-adjusted returns. Given these goals, Harvard's long-term target has been to distribute between 4.5 and 5 percent of the endowment's market value annually. Following the endowment's strong investment returns from fiscal 2003 through 2005, in fiscal 2006 the University decided to authorize distributions up to a level of 5.25 percent for the next several years.

Fiscal 2008 proved to be a challenging year for investors, as the majority of asset classes underperformed their long-term averages. As a consequence, the absolute return on the University endowment of +8.6 percent lagged the average annual returns achieved over the past five and ten years of 17.6 percent and 13.8 percent, respectively. After including all gifts received, netted against annual distributions and decapitalizations, at June 30, 2008, the University endowment was valued at $36.9 billion, compared with $34.9 billion a year earlier.



CASH RECEIVED FROM GIFTS
(Dollars in millions)



ENDOWMENT GROWTH
(Dollars in billions)

*Years coincide with The Campaign for Harvard Business School.

In terms of relative performance, however, fiscal 2008 was another strong year for the University endowment. Relative to the average institutional fund, the University endowment outperformed by 13 percentage points the negative 4.4 percent total return registered by the median of 165 large peer funds tracked by the Trust Universe Comparison Service (TUCS). The Harvard endowment's fiscal 2008 investment return also exceeded the +3.2 percent that marked the top-five percentile for this sample.

HMC extended its record of adding value across the majority of asset classes in which the University invests. The Harvard endowment outperformed in the domestic and emerging market equity and private equity asset classes. Liquid commodities, timber/agricultural land, and real estate, as well as domestic, foreign, and inflation-indexed bonds also outperformed. Underperforming asset classes were limited to foreign equity, high-yield investments, and absolute return investments.

The total investment return on the University endowment for fiscal 2008 exceeded HMC's policy portfolio aggregate benchmark by 170 basis points. This translated into $612 million of additional value for the endowment. Looking back at the last 10 years, the Harvard endowment outperformed the TUCS median institutional fund by an average of 7.7 percent per year. If the University had earned the median fund return during this period, the value of the University endowment would have been approximately $13.4 billion at June 30, 2008, or $23.5 billion less than the actual total of $36.9 billion.

ENDOWMENT RETURNS

Approximately 50 percent of the School's endowment has been earmarked by the donors to support professorships and faculty research, and 25 percent is in funds designated to provide income for MBA and Doctoral fellowships. Another 17 percent is restricted to existing strategic initiatives, building operations, and other ongoing operations of the School.

Because only the remaining 8 percent of the HBS endowment is dedicated to providing discretionary income for opportunistic investment, annual unrestricted giving is the School's primary resource for this purpose. These funds are used to nurture and accelerate new programs that are not endowed, and to support the School's emerging initiatives in research and teaching.

Reflecting the HBS community's continued generous class reunion and annual giving in fiscal 2008, income from unrestricted current use gifts totaled $14 million, or 3 percent, of the School's total revenue. This amount is equivalent to the income from an endowment valued at approximately $300 million. Income from unrestricted current use gifts supported every area of activity at HBS—from technology to case writing to faculty salaries.

Statement of Activity and Cash Flows*

IN MILLIONS FOR THE FISCAL YEAR ENDED JUNE 30,	2008	2007	2006
REVENUES			
MBA Tuition and Fees	$ 82	$ 77	$ 73
Executive Education Tuition	106	91	81
Publishing	139	128	119
Endowment Distribution	94	78	71
Unrestricted Current Use Gifts	14	17	12
Housing, Rents, and Other	9	9	9
Interest Income	7	5	3
TOTAL REVENUES	$ 451	$ 405	$ 368
EXPENSES			
Salaries and Benefits	$ 206	$ 179	$ 167
Publishing and Printing	53	51	42
Space and Occupancy	42	40	38
Supplies and Equipment	11	9	15
Professional Services	29	25	22
Fellowships	26	22	19
University Assessments	12	11	10
Debt Service	7	7	4
Other Expense	37	31	28
TOTAL EXPENSES	$ 423	$ 375	$ 345
Cash from Operations	$ 28	$ 30	$ 23
Use of Endowment Gifts or Appreciation	41	14	14
CASH BEFORE CAPITAL ACTIVITIES	$ 69	$ 44	$ 37
Capital Expenses	$ (40)	$ (20)	$ (49)
Use of Gifts for Capital Projects	5	3	12
NET CAPITAL EXPENSES	$ (35)	$ (17)	$ (37)
New Borrowings	$ 22	$ 7	$ 38
Debt Principal Payments	(9)	(7)	(4)
Other Activity	(33)	(22)	(26)
NET DEBT AND OTHER	$ (20)	$ (22)	$ 8
Change in Unrestricted Reserves	$ 14	$ 5	$ 8
Beginning Balance, Unrestricted Reserves	$ 65	$ 60	$ 52
Ending Balance, Unrestricted Reserves	$ 79	$ 65	$ 60

* This statement presents a managerial view of Harvard Business School operations focused primarily on cash available for use. It is not intended to present the financial results in accordance with generally accepted accounting principles (GAAP). A presentation in accordance with GAAP would report higher operating revenues for gifts and endowment distribution and would include depreciation expense, yielding income from operations of $32 million in fiscal 2008. Cash flows, however, would be equivalent under GAAP.

Consolidated Balance Sheet

IN MILLIONS FOR THE FISCAL YEAR ENDED JUNE 30,	2008	2007	2006
ASSETS			
Cash	$ 14	$ 16	$ 25
Unrestricted Reserves	79	65	60
Receivables, Loans, and Other Assets	176	182	178
Invested Funds:			
Endowment Investments	2,804	2,654	2,190
Current Fund Investments	27	16	18
Interest in Trusts Held by Others	140	151	132
Facilities, Net of Accumulated Depreciation	444	416	415
TOTAL ASSETS	$ 3,684	$ 3,500	$ 3,018
LIABILITIES			
Deposits, Advances, and Other	$ 38	$ 39	$ 39
Deferred Revenue	63	50	36
Other Debt Owed to University	29	26	25
Building Debt	121	108	108
TOTAL LIABILITIES	$ 251	$ 223	$ 208
COMPOSITION OF NET ASSETS			
Unrestricted Reserves	$ 79	$ 65	$ 60
Undistributed Income and Other	18	33	36
Pledge Balances	33	40	56
Student Loan Funds	10	10	11
Investment in Facilities	322	308	307
Endowment and Other Invested Funds	2,971	2,821	2,340
TOTAL ASSETS NET OF LIABILITIES	$ 3,433	$ 3,277	$ 2,810