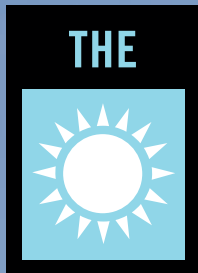


ANNUAL 2013





FROM THE DEAN

Dear Friends,

In 2013 we continued to execute on the School's priorities—innovation, intellectual ambition, internationalization, inclusion, and integration—and to refine and extend our efforts in each of these areas in new ways.

The Field Immersion Experiences in Leadership Development (FIELD) course in the MBA Required Curriculum, for example, has quickly become an integral component of the program. We now have turned our attention to how we might continue to strengthen the second year of the program, and incorporate elements of the field method into all the School's curricula. With the launch of edX, Harvard's online learning platform, we also are exploring how we can bring the hallmarks of an HBS education—engaged, interactive, team-based learning; staying close to practice; and the formation of enduring relationships—to life in a unique platform we are calling HBX.

The Harvard Innovation Lab—conceived, funded, and launched by HBS—has become a true University-wide resource. One gauge of its success is a series of compe-

titions, including the President's Challenge and several Dean's challenges, that draw teams of students from multiple schools to address opportunities in fields as diverse as cultural entrepreneurship and health and life sciences.

We continue to marshal our faculty, our research infrastructure, and our unique convening power to tackle broad societal issues. This effort could not be more timely, as society is growing more reliant on business, and business increasingly is being called upon to address problems that were previously deemed to belong in the public realm. The ongoing U.S. Competitiveness Project and the Forum on Healthcare Innovation, held in conjunction with Harvard Medical School, demonstrate the School's capacity to gather thought leaders, conduct deep analysis, tap into the knowledge and insight of our alumni network, disseminate ideas widely, and ultimately impact practice in sustained and potent ways.

Throughout the year, we marked the 50-year anniversary of women's admission into the full two-year MBA program with a

research seminar; a commemoration with our MBA students and community of International Women's Day; and, as a capstone, an alumni summit on campus that drew more than 800 graduates for two days of panel discussions, workshops, and plenary speakers.

The report that follows more fully outlines these and other noteworthy developments of the last fiscal year mapped against the rhythm of the School calendar. As I hope you will see, the progress we have made thus far is extraordinary, reflecting not only the remarkable ingenuity of our community, but also the engagement and support of our alumni. Together, we realize the HBS mission of educating leaders who make a difference in the world.

NITIN NOHRIA
DEAN OF THE FACULTY

THE YEAR IN REVIEW

FY13

The community celebrated 50 years of women in the full-time MBA Program. *Harvard Business Review* turned 90, the Harvard Innovation Lab turned 1, and HBX was launched. Entrepreneurial activity flourished, and issues-focused initiatives advanced. Generous gifts supported new Executive Education facilities, and reunions drew record-breaking numbers of alumni to campus.



SVMP

SUMMER VENTURE IN
MANAGEMENT

82

Designed to increase diversity and opportunity in business education, the School's one-week management training program for rising college seniors marked its 30th anniversary. The students, who numbered 82 in 2012, are selected on the basis of academic achievement, leadership, and character, with additional criteria to promote inclusion.

CAMPUS STEWARDSHIP

Continual investment in the HBS campus is most evident during the summer months. Highlights in 2012 include:

BATTEN HALL

The i-lab and hive classrooms were modified based on user feedback after the first year of operation.

MELLON HALL

The Executive Education residence hall underwent lighting retrofits, new heating and cooling controls, and upgrades to the security center as part of a sustainability initiative.



JULY

AUGUST

STUDENTS ARRIVE

The School welcomed new and returning MBA and Doctoral students to campus.

MBA

913

Class of 2014 Enrollment
(8,963 applicants)



% Women



% International

DOCTORAL

25

Incoming Students
(868 applicants)



% Women



% International

NEW TENURE-TRACK FACULTY



Ethan S. Bernstein
Organizational Behavior



John L. Beshears
Negotiation, Organizations & Markets



Alison Wood Brooks
Negotiation, Organizations & Markets



Prithwiraj Choudhury
Technology & Operations Management



Nien-hê Hsieh
General Management



Akshay Mangla
Business, Government & the International Economy



Rory M. McDonald
Technology & Operations Management



Ryan L. Raffaelli
Organizational Behavior



Feng Zhu
Technology & Operations Management



Other New Teaching & Research Faculty

SEPTEMBER

ALUMNI ACHIEVEMENT AWARD

The School's top honor was awarded to graduates who made significant contributions to society as well as the world of business, while upholding the highest standards and values.



Cynthia Carroll, MBA 1989
Former Chief Executive,
Anglo American PLC



**Franklin P. "Pitch"
Johnson Jr., MBA 1952**
Founding Partner, Asset
Management Company



Hiroshi Mikitani, MBA 1993
Chairman & CEO,
Rakuten, Inc.



**E. Roe Stamps IV,
MBA 1974**
Founding Managing
Partner, Summit Partners

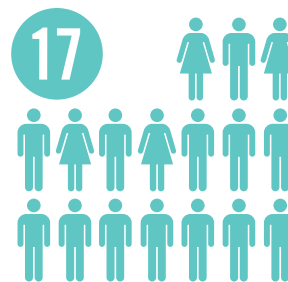


Andrew H. Tisch, MBA 1977
Co-Chairman,
Loews Corporation

TOPPING OFF TATA

SEP
24

A new phase of the construction of Tata Hall was celebrated as the highest steel beam was hoisted into place at a traditional topping off ceremony. The new building, slated for completion in late 2013, will host Executive Education participants. It has been made possible by a \$50 million gift from Tata Companies, the Sir Dorabji Tata Trust, and the Tata Education and Development Trust. Ratan N. Tata, former chairman of Tata Sons Ltd., attended the Advanced Management Program in 1975.



ENTREPRENEURS IN RESIDENCE

HBS named 17 veteran entrepreneurs, 14 of them alumni, to advise MBA students interested in starting companies and to work with faculty on research and course development. The Entrepreneurs in Residence for 2012-13 include:

Kent Dauten, MBA 1979
Chuck Davis, MBA 1986
Dayna Grayson, MBA 2006
Steve Halmos, MBA 1972
David Hornik
Terry Kramer, MBA 1986
Eric Paley, MBA 2003
Jules Pieri, MBA 1986
Eric Ries
Diego Rodriguez, MBA 2001
Ray Rothrock, MBA 1988
Cristian Shea
Steve Sydness, MBA 1981
Tony Tjan, MBA 1998
Lauri Union, MBA 1992
Russ Wilcox, MBA 1995
Gwill York, MBA 1984

NEW ROCK CENTER DIRECTOR

Meredith McPherron, MBA 1993, a consultant to entrepreneurs and a longtime volunteer at HBS and Harvard, returned to campus full time as director of the Arthur Rock Center for Entrepreneurship.

←
SEPTEMBER



NEW GIFT SUPPORTS MBA & EXECUTIVE EDUCATION

A \$40 million gift from a foundation of Dr. James Si-Cheng Chao and Family established a \$5 million MBA fellowship fund and provided \$35 million for a new Executive Education facility.

The Ruth Mulan Chu Chao Center, named for the family's late matriarch, will serve as a hub for Executive Education participants and the community, housing classrooms and spaces where participants, students, and faculty can exchange ideas. Of the six highly accomplished daughters of James and Ruth Chao, four attended HBS, making the family unique in the School's history.



WOMEN'S STUDENT ASSOCIATION SPEAKERS

The Women's Student Association hosted two distinguished speakers to begin the School's yearlong celebration of women at HBS. Barnard College President Debora Spar (PMD 62, 1991, and former HBS faculty member) addressed the issues that continue to obstruct women's ascent to leadership positions, and Princeton emerita professor Anne-Marie Slaughter spoke on her widely discussed *Atlantic* article, "Why Women Still Can't Have It All."



FALL REUNION

The largest-ever fall reunion brought more than 2,300 MBA and Owner/President Management alumni and guests to campus. The MBA Classes of 1977 and 1982 outdrew all previous 35th and 30th Reunions, and more than 200 attendees gathered to hear Professor Robin Ely speak on the 50th anniversary of women in the full time two-year MBA Program.



U.S. COMPETITIVENESS PROJECT: SAN FRANCISCO BAY, CHICAGO, DETROIT

This key initiative continued its Paths Forward event series that brings together alumni and leaders from academia, business, nonprofits, and policy in economic centers across the country to discuss actionable steps to improve U.S. competitiveness. The fall 2012 events were held in three major metropolitan areas on topics critical to the surrounding regions. The San Francisco Bay Area event focused on the role of entrepreneurship and innovation; the Chicago gathering addressed strengthening U.S. manufacturing; and in Detroit, the subject was building strong supplier networks.

OCTOBER



ROTH WINS NOBEL

Alvin Roth, the George Gund Professor of Economics and Business Administration at HBS (now professor emeritus), was named cowinner of the 2012 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel, sharing the honor with Lloyd Shapley, professor emeritus at UCLA.

The prize recognized Roth and Shapley for their contributions to solving the economic problem of matching agents optimally within systems—such as Roth’s work on medical residencies and kidney donations.

HARVARD I-LAB TURNS ONE



HARVARD-WIDE CHALLENGES

Five entrepreneurial ventures led or co-led by MBA students were named runners-up in the three Harvard-wide competitions hosted by the Harvard i-lab.

DEANS’ HEALTH & LIFE SCIENCES CHALLENGE

CARESOLVER (also a Rock Accelerator Award-winner), helping nonprofessional family caregivers care for their loved ones.

PRESIDENT’S CHALLENGE

PLENOPTIKA, a producer of a hand-held device for prescribing eyeglasses for residents of underserved areas.

TERRATEK, a social enterprise that maps and organizes property rights in developing countries.



14,230

Visits by students from across the University

89

Workshops

1,100

Events

131

Resident teams



DEANS' CULTURAL ENTREPRENEURSHIP CHALLENGE

CULTURALLY, a social discovery and engagement ecosystem for the arts

MUSIC+1, a mobile app that provides accompaniment for musicians in the form of recordings on real instruments



HBR'S 90TH

Harvard Business Review celebrated its 90th anniversary of publication with an evening of talks on disruptive innovation, big ideas, and leadership.

DOCTORAL AWARDS

Five outstanding doctoral students were recognized for their innovative dissertation research.

Wyss Award for Excellence in Doctoral Research (named in honor of Hanjörg Wyss, MBA 1965):

Ethan S. Bernstein
DBA, Management

Anoop Menon
DBA, Strategy

Melissa Valentine
PhD, Health Policy
(Management)

Martin Award for Excellence in Business Economics (established by Roger Martin, MBA 1981):

Dmitry Taubinsky
PhD, Business Economics

Robert Turley
PhD, Business Economics

FORUM ON HEALTHCARE INNOVATION



This collaborative effort of HBS and Harvard Medical School launched with a conference of industry experts, HBS and HMS faculty and Harvard alumni, and a survey of U.S. healthcare executives.

The resulting report prescribes five key imperatives for innovations that lead to value:

FOCUS ON VALUE, rather than on simply reducing costs or improving outcomes

PROMOTE NEW APPROACHES to the process of delivering care

HARNESS THE POWER OF CONSUMERISM

DECENTRALIZE care delivery and innovation

INTEGRATE NEW KNOWLEDGE into existing institutions

NOVEMBER

GLOBAL IMMERSIONS

During January Term, MBA students, faculty, and staff set off around the world on global immersions.

REQUIRED CURRICULUM

The global component of the new yearlong FIELD (Field Immersion Experiences for Leadership Development) course gave the entire first-year MBA class the opportunity to work with partner organizations on new product or service development projects.

913 First-year MBA students

15 cities in Argentina, Brazil, Chile, China, Ghana, India, Malaysia, South Africa, Turkey, the United States, and Vietnam

152 Partner organizations

ELECTIVE CURRICULUM

Second-year MBA students have the option of engaging in IXPs (Immersion Experience Programs), faculty-led study trips that emphasize field-based learning.

182 Second-year MBA students

6 IXPs in 4 countries: China, Japan, Peru, and South Africa



PROBING GENDER & WORK

The “Gender and Work: Challenging Conventional Wisdom” conference at HBS brought together scholars and practitioners to examine the realities of women and the workplace. Cochaired by professors Robin Ely and Amy Cuddy, the conference explored topics such as stereotypes, difference, negotiation, and organizational change.

WOMEN'S STUDENT ASSOCIATION CONFERENCE

1,000

The HBS Women's Student Association drew more than 1,000 women and men to its 22nd annual Dynamic Women in Business Conference, “How Do You Define Success?”

Featured speakers included Melanie Healey of Procter & Gamble, Nancy Barry of Enterprise Solutions to Poverty, and Victoria Ransom of Wildfire.

NEW PROFESSORSHIP



Professor Emeritus Alvin Silk established an endowed professorship in honor of his late wife, Diane Doerge Wilson, an organizational sociologist and expert on the impact of information technology on global business. The professorship supports a faculty member with interests at the intersection of gender, work, career, and family issues. The first incumbent is Professor Robin Ely.

JANUARY

FEBRUARY

MARCH

W50 SUMMIT

APR

04

A capacity crowd that included 800 alumni gathered at HBS for the W50 Summit celebrating 50 years of women in the full time two-year MBA Program.



The School hosted two days of panels, workshops, and presentations spanning a wide range of topics.

KEYNOTE SPEAKERS INCLUDED:



KAREN GORDON MILLS, MBA 1977, former administrator, U.S. Small Business Administration



ANN MOORE, MBA 1978, retired chairman & CEO, Time Inc.



SHERYL SANDBERG, MBA 1995, COO, Facebook

NEW CASE ON WOMEN MBAs



On International Women's Day, Dean Nitin Nohria introduced the new case *Women MBAs at Harvard Business School, 1962–2012*, to all first-year MBA students. The case, written by professor Boris Groysberg with researchers Kerry Herman and Annelena Lobb, was also taught to second-year students and staff in special sessions.

DOCUMENTARY FILM



HBS commissioned *A Woman's Place*, a half-hour documentary that features 40 alumnae and students (including graduates of the Harvard-Radcliffe Program in Business Administration that preceded women's admission to the MBA Program) reflecting on their careers and lives. Spanning five decades, the film reveals persistent issues in women's experiences at HBS and in the business world.

ALUMNI SURVEY



As part of the ongoing Culture and Community Initiative, the School sponsored a survey to gather information about the careers and life decisions of some 6,500 male and female alumni. Early results were announced during the W50 events, showing a much lower percentage of stay-at-home mothers than recent media coverage suggests.

APRIL

NEW VENTURE COMPETITION



The 17th annual HBS New Venture Competition (formerly known as the Business Plan Contest) awarded more than \$300,000 in cash and in-kind support to winning and runner-up student and alumni teams.

GRAND PRIZE WINNERS:

TAUROS ENGINEERING, commercializing a technology to identify a widespread type of bridge erosion (*Student Business Track*)

BLUELIGHT, creator of consumer finance products for base-of-the-pyramid customers in developing economies (*Student Social Enterprise Track*)

VAXESS TECHNOLOGIES, whose technology makes it possible to ship vaccines without refrigeration (*Alumni Business Track*)

YASO BIOTECHNOLOGY INC., developer of a unique, woman-controlled prophylactic product (*Alumni Social Enterprise Track*)

LEADERSHIP FELLOWS

The 19 newly minted MBAs named HBS Leadership Fellows prepared to assume their one-year positions in non-profit or public-sector organizations. Funded jointly by HBS and their employers, the Leadership Fellows are working with varied organizations—including:

City of Sacramento Mayor's Office

Consumer Financial Protection Bureau

Harlem Children's Zone

Lincoln Center for the Performing Arts

The Nature Conservancy

Oxfam America



U.S. COMPETITIVENESS PROJECT: BOSTON

The U.S. Competitiveness Project convened a Paths Forward event at HBS—and the common thread was collaboration. From then Boston Mayor Thomas M. Menino to HBS faculty, speakers stressed the importance of collaboration in Boston's recovery from the Marathon bombings, in breaking through congressional gridlock, and in nurturing start-ups.

APRIL

MAY

COMMENCEMENT



MAY 30 HBS awarded the MBA degree to 901 students at its 103rd Commencement. In the Doctoral Programs, 7 students received the DBA, and 8 others graduated with the PhD, granted in collaboration with the Harvard Faculty of Arts and Sciences.

BAKER SCHOLARS

At Commencement, students in the top 5 percent of the MBA class graduated with high distinction as Baker Scholars. Of the 47 Baker Scholars, 38 percent were women, the highest percentage of female recipients in HBS history.

DEAN'S AWARD

Four graduating MBA students received the annual HBS Dean's Award for extraordinary contributions to the School, Harvard, or broader communities. The recipients:

Prem Ramaswami, an engineer who proposed and helped develop and teach a new course in product management

Elizabeth P. "Parker" Woltz, co-president of the HBS Women's Student Association

Galen Laserson and Matt Lesniak, coleaders of the student Leadership and Values Committee

FACULTY AWARDS



Students in the Doctoral Programs honored two faculty members with the sixth annual Wyss Award for Excellence in Mentoring. Professor Kathleen



McGinn, chair of the Doctoral Programs, received the senior faculty Wyss Award, and Associate Professor Anita Tucker won its junior faculty counterpart.

SPANGLER HONORED



C. Dixon (Dick) Spangler, Jr., MBA 1956, was granted an honorary doctor of laws degree by Harvard University. Spangler, retired as a business leader and as president of the University of North Carolina, is a generous benefactor of both HBS and the University.



SPRING REUNION

The 2013 spring reunion broke all previous attendance records with 3,538 alumni and guests. The MBA Class of 1963 donated \$24.5 million, establishing a new high-water mark for 50th-reunion fundraising. The first-year reunion, inaugurated in 2010, has grown steadily, drawing 49 percent of the Class of 2012.

NEW CIO

Steve Gallagher, MBA 1995, joined HBS as chief information officer. He was most recently CIO and vice president for information technology services at the University of San Francisco. Gallagher also brings an extensive background in managing IT teams in financial services, venture capital, and start-ups.

END
FY13

JUNE

5-YEAR SUMMARY

FOR THE FISCAL YEAR ENDED JUNE 30,

Financial Data (in millions)	2013	2012	2011	2010	2009
Revenues	\$ 587	\$ 546	\$ 509	\$ 467	\$ 472
Expenses	542	504	456	415	438
Cash from Operations	45	42	53	52	34
Capital Investments	78	51	34	14	19
Building Debt Outstanding	91	99	103	112	119
Unrestricted Reserves	83	119	79	99	96
Endowment	2,880	2,665	2,779	2,311	2,117
Total Assets	\$ 3,831	\$ 3,490	\$ 3,528	\$ 3,087	\$ 2,826

MBA Program

Applications	9,315	8,963	9,134	9,524	9,093
Percent Admitted	12%	13%	12%	11%	12%
Yield	89%	90%	90%	89%	89%
Enrollment	1,838	1,805	1,860	1,864	1,809
Tuition	\$ 53,500	\$ 51,200	\$ 48,600	\$ 46,150	\$ 43,800
Average Fellowship Aid per Student	\$ 30,725	\$ 29,843	\$ 26,745	\$ 23,989	\$ 24,393

Doctoral Programs

Applications	816	868	830	931	798
Percent Admitted	5%	4%	5%	4%	4%
Yield	71%	68%	68%	69%	69%
Enrollment	143	137	132	125	120

Executive Education

Enrollment	9,992	9,891	9,939	8,670	8,291
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Faculty

Faculty Positions (full-time equivalents)	227	232	217	218	228
Teaching Materials	684	640	635	538	608
Research Articles	181	184	150	155	146
Books	17	23	18	29	20

Staff

Staff Positions (full-time equivalents)	1,335	1,198	1,138	1,087	1,187
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Publishing

Cases Sold	11,448,076	10,603,000	9,764,000	9,668,000	8,334,000
Harvard Business Press Books Sold	1,950,931	1,580,000	1,665,000	1,769,000	1,478,000
HBR Circulation	285,520	256,000	241,000	236,000	237,000
HBR Reprints Sold	3,231,384	3,355,000	3,098,000	2,946,000	2,863,000

FROM THE

CHIEF FINANCIAL OFFICER

Harvard Business School achieved strong financial results in fiscal 2013. Revenues, operating margins, and gift income all came in higher than expected. As a result, the School was able to fully support its teaching and research activities, as well as ongoing operations, with internally generated cash.

This cash from operations was instrumental in other ways. It enabled HBS to invest in growth in Harvard Business Publishing (HBP) and Executive Education, as well as campus renewal and expansion, while still concluding the year with a strong balance of unrestricted reserves held outside the endowment. These reserves are crucial in providing the School with sufficient liquidity to execute on its mission through economic cycles over the long term.

The School's fiscal 2013 results are detailed in the Supplemental Financial Information section that begins on page 22. The balance of this letter will focus on the financial implications of executing on the School's strategic priorities, including a look ahead at the investment needed to continue to advance the School's mission in a challenging environment.

FISCAL 2013 IN REVIEW

MBA Program

Fiscal 2013 was the second academic year for FIELD—the School’s innovative course in the MBA Required Curriculum. FIELD is characterized by its focus on team-based learning outside the classroom in a variety of settings. During FIELD 2, all 900-plus students spend 10 days working in an emerging market on a new project or service project with a global partner organization. Providing faculty, travel, and administrative support for the FIELD teams both on campus and internationally has added approximately \$10 million

has grown from \$44,482 for the Class of 2009 to \$59,000 for the Class of 2014. About half of the School’s MBA students currently receive fellowships, which cover an average of more than 50 percent of a student’s total tuition. Average fellowship support per student increased 3 percent to \$30,725 in fiscal 2013, from \$29,843 in the prior year.

Faculty Research

Faculty research is the engine that drives the MBA, Doctoral, and Executive Education curricula at HBS. Sustaining the School’s ambitious approach to knowl-

business leaders, and policymakers with the hope of influencing practice. A notable effort in fiscal 2013 was the U.S. Competitiveness Project. In its second year, the project continued to leverage the research of a diverse group of HBS faculty and other scholars, as well as the experience of faculty and alumni, to generate ideas and actions that will improve the nation’s competitiveness.

The growth in research spending has been driven by both the broader scope of the School’s agenda and the increasingly global and I.T.-intensive character of the faculty’s work in the field. The School’s total spend-

Welcoming the most talented applicants, regardless of their country of origin or their financial resources, is a long-standing goal of the School.

Fellowship Spending (in millions)	MBA	Total*	Investment in Research (in millions)	
FY 13	\$ 29	\$ 40	FY 13	\$ 110
FY 12	27	37	FY 12	109
FY 11	26	36	FY 11	97
FY 10	25	35	FY 10	92
FY 09	25	33	FY 09	97

* includes Doctoral Programs and Executive Education

to the School’s annualized baseline MBA program delivery costs. MBA tuition and fee revenues cover only a minor portion of these costs. As a result, FIELD has become a major operating expense driver for the School, and has placed a new strain on the operating budget.

Fellowships further reduce the MBA tuition and fee income available to support the educational experience. The School’s fellowship spending has increased in recent years. Welcoming the most talented applicants, regardless of their country of origin or their financial resources, is a long-standing goal of the School. HBS also endeavors to attract strong MBA candidates who, because of financial constraints, might not otherwise consider a degree in business.

Over the past five fiscal years, the School’s average two-year MBA fellowship award

edge creation typically requires more than 20 percent of the operating budget. The focus for the faculty’s research is increasingly extending beyond the management of firms to the large-scale, cross-disciplinary issues that challenge society and the global economy. Although these issues are often addressed through individual faculty projects, the School is pursuing a range of research models.

One such model is the portfolio of HBS-wide initiatives built on multifaculty research agendas that generate publications, host conferences that broaden the impact of the findings, develop Executive Education programs and new MBA courses, and enhance student and alumni engagement. Another is the intensive focus of a research project, typically carried out over two to three years that may include an alumni survey, cross-disciplinary faculty research, and outreach to alumni, other

ing for faculty research support in fiscal 2013 grew by \$1 million, or 1 percent, from the prior year to \$110 million.

Harvard Business Publishing

As we prepared the School’s fiscal 2013 financial plan, it was clear that flexible, innovation-focused funding would be crucial. We were less certain, however, as to whether growth in the School’s income would be sufficient to meet our needs. HBS depends on competitive business units—HBP and Executive Education—for nearly 56 percent of its revenue and an even larger percentage of its operating income. As we approached the new fiscal year, sales at HBP were slowing, particularly in Europe, amid mixed economic conditions globally. And although application rates for the School’s Executive Education offerings remained strong, we knew that near-term growth in Executive

Education revenues would be limited by the School's campus housing constraints.

Our fiscal 2013 planning assumptions were too cautious, in retrospect, as the School's total revenues grew more than 7 percent from the prior year. Total expenses, which came in \$2 million under budget, also were up 7 percent. Income from HBP and Executive Education, as well as cur-

Executive Education

Executive Education entered fiscal 2013 facing constraints of both campus space and faculty availability. Participation in open enrollment and custom programs was essentially flat with the prior year, as a result. Driven primarily by tuition increases, Executive Education revenue grew by \$4 million, or 3 percent, from fiscal 2012, exceeding

Capital Activities

The School's major capital activities also included planning, design, and procurement for the renovation of Baker Hall, which opened as an Executive Education residence facility in 1970. Funding this project is a gift from André Esteves, cofounder and CEO of the Brazil-based investment bank BTG Pactual and a member of the School's Latin America

HBS depends on competitive business units—HBP and Executive Education—for nearly 56 percent of its revenue and an even larger percentage of its operating income.

Publishing Revenue (in millions)	
FY 13	\$ 180
FY 12	165
FY 11	152
FY 10	135
FY 09	137

Executive Education Revenue (in millions)	
FY 13	\$ 146
FY 12	142
FY 11	132
FY 10	113
FY 09	107

rent use giving and the endowment distribution, all exceeded our forecast.

The School's publishing business continued to successfully navigate volatile and challenging business conditions while keeping a tight rein on expenses. Each of HBP's market groups continued to deliver top-line growth in fiscal 2013. Sales in the corporate learning market were exceptionally strong, driven by growing demand for its flagship eLearning product, Harvard ManageMentor. Additionally, circulation revenue from *Harvard Business Review* reached an all-time high, as did HBP's overall international sales.

As a result, HBP outperformed our expectations for revenue and margin contribution for the fourth consecutive year. The School's publishing revenue for fiscal 2013 increased by \$15 million, or 9 percent, from fiscal 2012, exceeding our forecast by 3 percent. Reflecting HBP's efficiency-focused culture and strict attention to expense control, the group's fiscal 2013 margin contribution also exceeded our initial expectations.

the School's fiscal 2013 budget by 4 percent.

The Executive Education group continued to be effective in managing expenses and utilizing available capacity, however. Despite delivering a larger number of programs off-campus in India, China, Europe, and the Middle East and making a major investment in an enhanced CRM platform, the group's margin contribution in fiscal 2013 came in higher than our forecast.

Executive Education has been the School's top capital investment priority for the past two years. The School is expanding residence capacity and enhancing the educational and living spaces in the Executive Education buildings at the northeast corner of the campus. The focus for these initiatives in fiscal 2013 was Tata Hall, which will provide additional classroom and common spaces plus new housing capacity for 179 program participants. Construction of Tata Hall proceeded on schedule toward an opening planned for the second quarter of fiscal 2014.

Advisory Board. HBS also began planning for The Ruth Mulan Chu Chao Center, a new facility to replace Kresge Hall, that will provide dining for Executive Education participants and be a hub of educational activity for the entire campus.

The School's other major capital projects in fiscal 2013 included preparation for Crimson Commons, an interim Executive Education dining facility that will operate for about two years while the Chao Center is being constructed. Work also continued in fiscal 2013 on the tunnel system that will connect Tata Hall to McArthur Hall and the future Chao Center. Including numerous building upgrade and renewal projects across the campus as well, the School's total capital expenses increased 53 percent to \$78 million in fiscal 2013, from \$51 million in the prior year.

Giving

Income from gifts given by HBS alumni and friends—including endowment and construction gifts together with current use giving—is central to the School's economic model. Unrestricted current use gifts are particularly crucial as a source of flexible funding for the opportunistic investments that support innovation at HBS. Reflecting the continued generosity of the HBS community, fiscal 2013 was a strong year for class reunion and annual giving at the School.

Revenue from unrestricted current use gifts rose by \$3 million, or 16 percent, from the prior year to a record \$22

million. This unrestricted funding was crucial in enabling the School to expand entrepreneurship programs at the Harvard i-lab and to pursue other strategic initiatives without drawing on unrestricted reserves. Total current use giving, including restricted and unrestricted gifts, increased to \$43 million, surpassing the record of \$36 million set in fiscal 2011.

The income from past decades of endowment giving by HBS alumni and friends supports a substantial portion of the School's operations every year. Reflecting the strong recovery in the mar-

Capital Investment (in millions)

FY 13	\$ 78
FY 12	51
FY 11	34
FY 10	14
FY 09	19

ket value of the endowment since the global economic downturn of 2008–2009, as well as new endowment gifts, the School's endowment distribution revenue for fiscal 2013 increased 7 percent year-over-year to \$117 million.

FISCAL 2014 OUTLOOK

Although HBS delivered strong financial results in fiscal 2013, the School's top-line performance in fiscal 2014 will continue to closely track the path of the global economy. Taking nothing for granted in a continually challenging environment, our financial plan for fiscal 2014 is guided, as always, by our desire to be strategically ambitious but fiscally prudent.

We are forecasting total top-line growth of 4 percent, year-over-year, in fiscal 2014. Revenue from MBA tuition and fees is projected to rise 5 percent, partially offset as always by financial aid. The University has advised the School that its fiscal 2014 endowment payout will grow 2 percent from fiscal 2013. Reflecting this anticipated payout, as well as income from new gifts to the endowment, we expect the School's total endowment distribution revenue for fiscal 2014 to increase 2 percent from fiscal 2013—a year in which the School was very effective in using available endowment funds.

We are forecasting fiscal 2014 revenue growth at HBP and Executive Education of 3 percent and 5 percent, respectively. HBP faces ongoing competitive chal-

and excellence and to drive continued revenue growth in an increasingly competitive marketplace.

The publishing group will be making further investments in its online products and technology platform in fiscal 2014. Executive Education margins will face greater pressure as the group delivers more executive programs abroad and begins to experience the depreciation associated with its recently constructed campus facilities. As a result, we have modest expectations for growth in income contributions from both groups as compared to fiscal 2013.

With rising operating costs across the School and lower margins at HBP and Executive Education, we can anticipate greater pressure to grow revenues from gifts and endowment distribution. Fiscal 2014 will mark the start of the Harvard and the HBS capital campaigns. The School made large investments in building staff and I.T. support infrastructure for the campaign in fiscal 2013, and these investments will grow in fiscal 2014 in preparation for the public launch of the campaign in April 2014.

These dynamics foreshadow a challenging period for operating income. Fiscal 2014 will be a year of strategic innova-

Unrestricted current use gifts are particularly crucial as a source of flexible funding for the opportunistic investments that support innovation at HBS.

Given the sensitivity of the HBS economic model to conditions in the economy, our challenge as stewards of the School's financial resources is to execute strategically in a way that is self-sustaining for the enterprise—in other words, to ensure that HBS continues to serve as a living model for what we teach. For this reason, we believe that generating an operating surplus is crucial to the School's identity. As it has for more than a decade, HBS remained solidly cash flow positive in fiscal 2013, generating \$45 million in cash from operations, compared to \$42 million in fiscal 2012.

lenges as the publishing industry continues to evolve. There will be a modest easing in the capacity constraints in Executive Education upon the opening of Tata Hall. However, with Baker Hall going off line and Kresge Hall closing during the year, the School's revenue growth capacity in Executive Education remains limited at this point.

We anticipate challenges in fiscal 2014 on the cost side as well. Disciplined expense management is core to our culture at HBS, but underlying costs are rising as the scope of the School's operations expands. At the same time, HBS will be making substantial investments at HBP and Executive Education to sustain their positions of leadership

tion in key areas at HBS. In support of the Global Initiative, for example, the School will be implementing a new approach in Latin America by hiring an executive director to be based in Brazil. Capitalizing on opportunities in online learning will be another major priority for fiscal 2014. The School's core educational philosophy is participant-centered, active learning—an experience that is both important and complex to replicate online. Consequently, the faculty's key challenge is to develop a distinctively HBS platform and experience that the School has named "HBX."

This initiative will involve substantial investments in technology platform development. HBX has implications for the

School's capital budget as well. Office space for the newly created HBX operational support staff will be leased and built out during the year, as will Studio X, the School's first fully interactive virtual classroom, which will be located in the WGBH building in Brighton.

HBS will be pursuing these and other fiscal 2014 strategic initiatives against the backdrop of rising operating costs. Our financial plan for fiscal 2014 as-

sumes a 10 percent year-over-year increase in total expenses. This spending growth will largely occur at HBP and Executive Education and in the External Relations, I.T., and HBX groups as the School works to generate income to enable innovation and continue to deliver on its educational mission. The additional spending planned for fiscal 2014 mainly reflects higher compensation costs, as salary and benefits for faculty and administrative staff are the largest expense at HBS.

campus, and reduce operating costs by improving energy efficiency. The School's total capital budget for fiscal 2014 is \$122 million—up 56 percent from the \$78 million invested in fiscal 2013.

Declining margin contributions from the School's competitive business units will lead to greater reliance on income from unrestricted current use gifts in fiscal 2014. The School's goals for the upcoming HBS capital campaign reflect

Disciplined expense management is core to our culture at HBS, but underlying costs are rising as the scope of the School's operations expands.

Adding faculty continues to be a key strategic priority for the School, and fiscal 2013 was a successful year for faculty recruiting. As a result, after normal retirements and planned and unplanned departures, the total size of the faculty has grown from 227 a year ago to 234 as we begin fiscal 2014. Pursuing the School's agenda for fiscal 2014 will also require a larger administrative staff. Reflecting faculty and staff additions, as well as upward pressures on benefits costs, the School's fiscal 2014 financial plan assumes a 9 percent year-over-year increase in total compensation expense.

Fiscal 2014 will be another active year for capital projects at HBS, in large part focused on Executive Education. The fiscal 2014 capital plan also includes a number of important campus renewal and upgrade investments. These projects are designed to prevent deferred maintenance, preserve the value of the

this reality. The campaign will be an opportunity to highlight the School's alumni and the ways they are making a difference in the world.

HBS alumni are looking for new opportunities for engagement with the School and with each other. In connection with its preparations for the capital campaign, one of the School's major I.T. investments in fiscal 2013 was focused on developing the first phase of a revamped alumni website that can serve as a platform for this engagement. Launched in September 2013, the website will provide alumni with better access to the School's educational and career development resources. It will also deliver powerful social media functionality that alumni can use to better connect with one another.

Thanks to the HBS community's legacy of generosity, the School has the financial capacity to pursue its mission as we begin fiscal 2014. Our commitment is to sustain this legacy with responsible financial stewardship this year and in the years ahead.



RICHARD P. MELNICK, MBA 1992
CHIEF FINANCIAL OFFICER
OCTOBER 1, 2013

STATEMENT OF ACTIVITY & CASH FLOWS*

FOR THE FISCAL YEAR ENDED JUNE 30,

Revenues (in millions)	2013	2012	2011
MBA Tuition & Fees	\$ 107	\$ 99	\$ 96
Executive Education Tuition	146	142	132
Publishing	180	165	152
Endowment Distribution	117	109	100
Unrestricted Current Use Gifts	22	19	17
Housing, Rents, & Other	14	11	11
Interest Income	1	1	1
Total Revenues	\$ 587	\$ 546	\$ 509
Expenses			
Salaries & Benefits	\$ 255	\$ 241	\$ 219
Publishing & Printing	67	59	55
Space & Occupancy	48	47	44
Supplies & Equipment	9	10	10
Professional Services	40	35	31
Fellowships	40	37	36
University Assessments	18	17	15
Debt Service	6	6	7
Other Expenses	59	52	39
Total Expenses	\$ 542	\$ 504	\$ 456
Cash from Operations	\$ 45	\$ 42	\$ 53
Use of Endowment Gifts or Appreciation	22	24	18
Cash Before Capital Activities	\$ 67	\$ 66	\$ 71
Capital Expenses	\$ (78)	\$ (51)	\$ (34)
Funding Capital Projects for Future Year	(26)	1	(2)
Use of Gifts for Capital Projects	11	17	3
Net Capital Expenses	\$ (93)	\$ (33)	\$ (33)
New Borrowings	\$ 0	\$ 0	\$ 0
Debt Principal Payments	(8)	(4)	(9)
Other Activity	(2)	11	(49)
Net Debt & Other	\$ (10)	\$ 7	\$ (58)
Change in Unrestricted Reserves	\$ (36)	\$ 40	\$ (20)
Beginning Balance, Unrestricted Reserves	\$ 119	\$ 79	\$ 99
Ending Balance, Unrestricted Reserves	\$ 83	\$ 119	\$ 79

CONSOLIDATED BALANCE SHEET

FOR THE FISCAL YEAR ENDED JUNE 30,

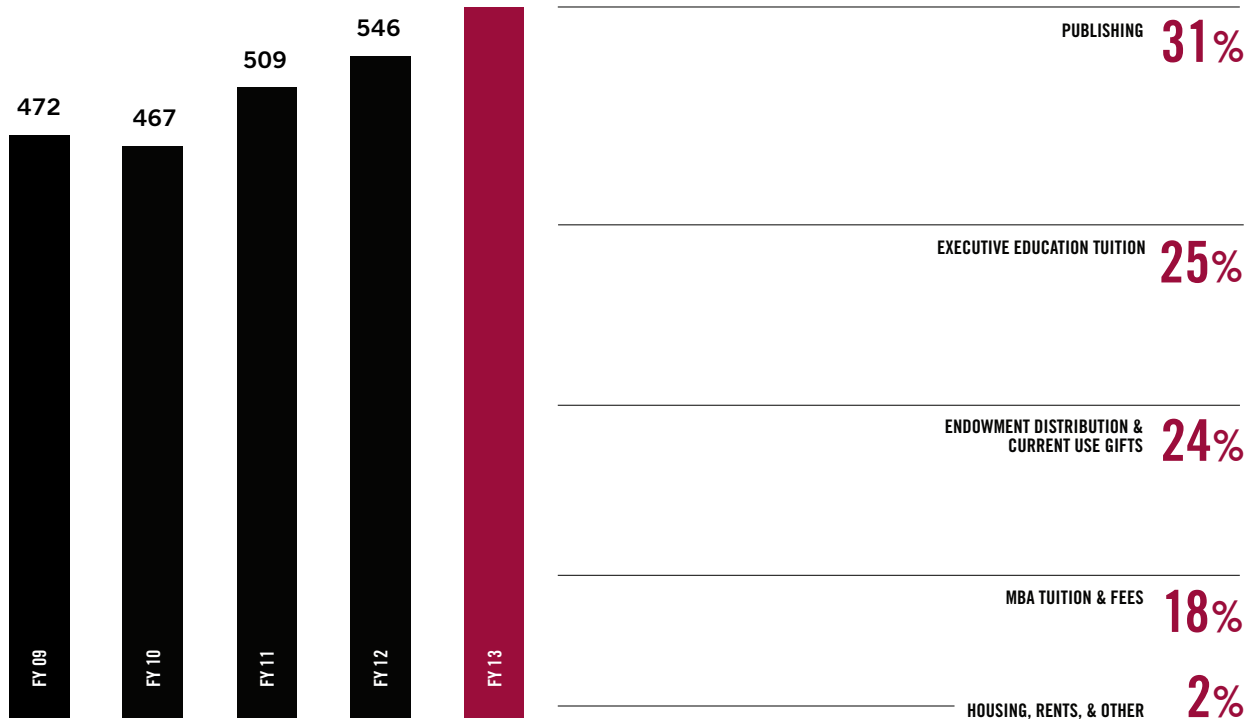
Assets (in millions)	2013	2012	2011
Cash	\$ 38	\$ 26	\$ 18
Unrestricted Reserves	83	119	79
Receivables, Loans, & Other Assets	319	222	214
Invested Funds:			
Endowment Investments	2,658	2,485	2,569
Current Fund Investments	78	42	66
Interest in Trusts Held by Others	144	138	144
Facilities, Net of Accumulated Depreciation	511	458	438
Total Assets	\$ 3,831	\$ 3,490	\$ 3,528
Liabilities			
Deposits, Advances, & Other	\$ 56	\$ 53	\$ 44
Deferred Revenue	85	65	62
Other Debt Owed to University	23	23	28
Building Debt	91	99	103
Total Liabilities	\$ 255	\$ 240	\$ 237
Composition of Net Assets			
Unrestricted Reserves	\$ 83	\$ 119	\$ 79
Undistributed Income & Other	5	5	8
Pledge Balances	179	92	80
Student Loan Funds	9	10	10
Investment in Facilities	420	359	335
Endowment & Other Invested Funds	2,880	2,665	2,779
Total Assets Net of Liabilities	\$ 3,576	\$ 3,250	\$ 3,291

* The Statement of Activity & Cash Flows 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 \$41 million in fiscal 2013. Cash flows, however, would be equivalent under GAAP.

SUPPLEMENTAL

FINANCIAL INFORMATION

\$587 million



REVENUES

Underpinning teaching and research at Harvard Business School is a nearly \$600 million enterprise, driven by an economic model that is unique among Harvard University schools and in higher education. The core of the model is internally funded research. HBS supports the work of the faculty, who are then free to pursue the questions and opportunities they believe have the greatest potential to generate new knowledge, without the constraints associated with funding from external organizations.

When transformed by the faculty into HBS cases, this new knowledge sparks

the dynamism and focus on cutting-edge business issues that has long distinguished the classroom experience at the School. At the same time, the intellectual capital created by the faculty is disseminated by Harvard Business Publishing (HBP) in corporate and higher education markets around the world. Margin contributions from HBP and Executive Education, the School's competitive business units, complete the self-sustaining cycle by serving as the primary sources of funding for the faculty's research.

Income from HBP and Executive Education makes HBS less reliant on its en-

dowment than other schools at Harvard. However, alumni generosity has become increasingly important to the School's economic model in recent years. Endowment gifts, as well as unrestricted current use giving, provide additional financial stability and flexibility that are crucial to the School's ability to execute on its mission.

The revenues generated by HBP and Executive Education in any given year are sensitive to trends in the economy and the capital markets, as are income from the endowment and alumni current use giving to the School. These trends

remained favorable for a third consecutive year in fiscal 2013.

The School's total revenues for fiscal 2013 grew by \$41 million, or 8 percent, from fiscal 2012. The portion of this growth attributable to HBP and Executive Education was \$19 million, as combined revenues from both groups rose 6 percent from the prior year to \$326 million. HBP and Executive Education together generated nearly 56 percent of the School's total revenues—the same percentage as in fiscal 2012.

MBA Tuition & Fees

HBS sets MBA tuition and fees at levels that do not fully recover annual operating expenses, much less the School's long-term investments in enhancements to the MBA program. The shortfall is offset primarily with income from gifts given by alumni and friends of the School, whose generosity enriches the HBS educational experience for future generations of students. First-year MBA tuition in fiscal 2013 was \$53,500—near the midpoint among the seven comparable schools tracked by HBS—compared to \$51,200 last year. Tuition and fee revenue from the School's core academic program grew to \$107 million, from \$99 million in fiscal 2012, reflecting a modest increase in MBA enrollment.

Executive Education

Demand for open enrollment and custom programs—particularly those offered outside the United States—remained strong in fiscal 2013. However, the Executive Education group's top-line growth was limited by ongoing constraints on participant housing. Total participant enrollment in fiscal 2013 was essentially flat with the prior year at 10,000. Reflecting a favorable pricing environment, tuition revenue grew 3 percent to \$146 million, from \$142 million in fiscal 2012.

Harvard Business Publishing

The School's publishing business continued to grow in a fast-changing and competitive environment in fiscal 2013. *Harvard Business Review* circulation revenue reached an all-time high. Sales

of HBS cases and HBS Press revenue both were up substantially year-over-year, driven by double-digit growth internationally. In addition, reflecting the publishing industry's ongoing shift from paper to online media, eLearning product sales eclipsed those of *HBR* for the first time. As a result, HBP's total revenue grew by \$15 million from fiscal 2012, or 9 percent, to \$180 million.

Gifts & Endowment

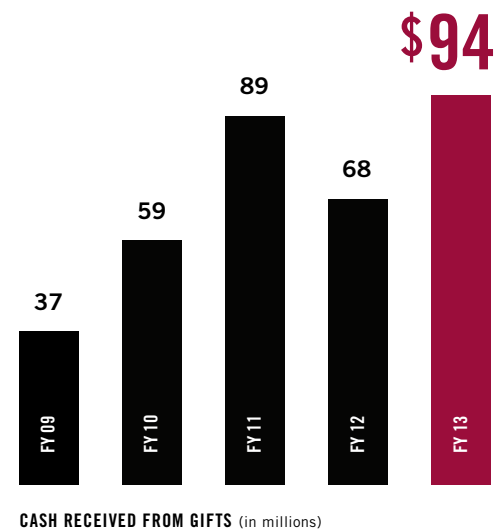
Gifts to HBS have been playing an increasingly important role in supporting the School's operations for more than a decade. This trend continued in fiscal 2013 as revenue from gifts—in the form of the endowment distribution and gifts for current use—increased to \$139 million, or 24 percent of total revenues, from \$128 million, or 23 percent of total revenues, in fiscal 2012.

Like other Harvard schools, HBS raises its own funds, and fiscal 2013 fundraising results exceeded the School's internal forecast. Continuing to demonstrate extraordinary involvement and generosity, the HBS community gave a record \$203 million in new gifts and pledges to the School, up 57 percent, from \$129 million in fiscal 2012.

Fiscal 2013 was an exceptionally strong year for unrestricted current use giving to HBS. Revenue from these flexible gifts increased 16 percent to \$22 million, from \$19 million in fiscal 2012, providing critical funding for innovation across the School. Cash giving for construction projects grew to \$17 million from \$5 million, and endowment giving rose 35 percent to \$31 million.

HBS received gifts from more than 12,900 donors in fiscal 2013, including MBA, Doctoral, and Executive Education alumni, as well as friends of the School. As in fiscal 2012, approximately 27 percent of the School's MBA alumni gave to HBS during the year. Total cash received from gifts, including new endowment gifts and gifts for capital construction projects, payments on prior years' pledges, and restricted and unrestricted current use giving, increased 38 percent to \$94 million, from \$68 million in fiscal 2012.

Distributions of income from the HBS endowment have ranged between 20 and 24 percent of total revenues at HBS for the past several years. The School's endowment distribution revenue grew for the second consecutive year in fiscal 2013, and amounted to 20 percent of total revenues.



The HBS endowment currently consists of more than 1,000 discrete funds established over the years by individual donors, corporations, and reunion classes. The School budgets the use of endowment distributions to support operations according to the terms of each gift. Funds within the HBS endowment, along with those of the other Harvard schools, are managed by Harvard Management Company (HMC), a subsidiary governed and wholly owned by the University.

The University determines the payout rate—that is, the percentage of the endowment withdrawn in any given year and distributed for operations and for strategic purposes. Consistent with the long-term goal of balancing the maintenance of the endowment’s purchasing power for future generations and the desire to pursue nearer-term opportunities, the University’s targeted annual

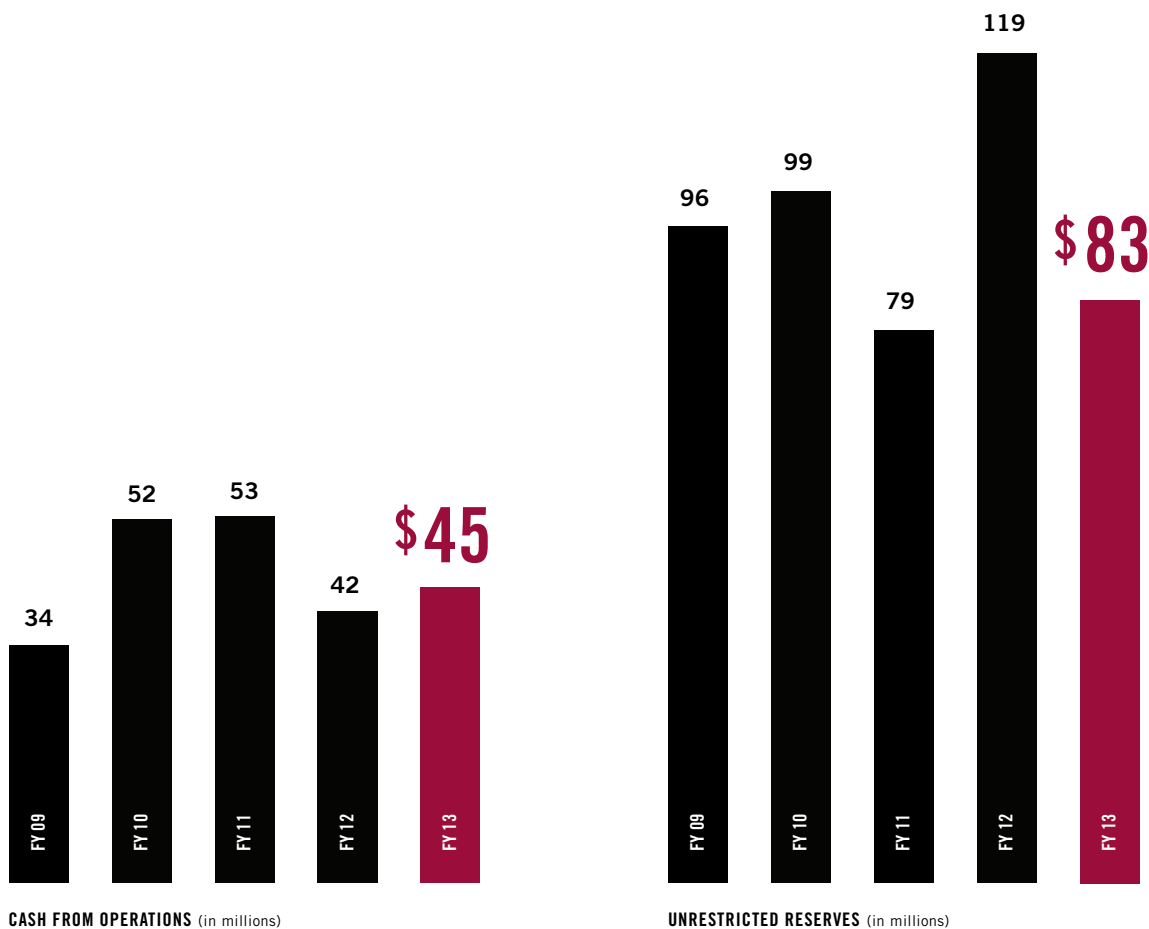
payout range is between 5.0 and 5.5 percent.

The University’s payout rate for fiscal 2013 was 5.2 percent, compared to 5.5 percent for fiscal 2012. HBS continued its efforts to maximize the use of investment income from existing endowment funds, while receiving a number of new endowment gifts. As a result, the School’s fiscal 2013 endowment distribution increased 7 percent from the prior year to \$117 million.

In an effort to achieve strong, sustainable long-term investment returns, HMC manages the University endowment with three primary objectives: growth, sufficient liquidity, and appropriate risk management. The absolute return on the Harvard endowment for fiscal 2013 was +11.3 percent, net of all expenses and fees, compared to an essentially flat performance for the prior year.

Fiscal 2013 marked the fourth consecutive year in which the return on the University’s investments exceeded HMC’s Policy Portfolio benchmark. Over the past three years the average annual return on the Harvard endowment has been 10.5 percent, compared to 9.1 percent for the Policy Portfolio. Longer term, the University endowment has returned 9.4 percent annually over the past 10 years and 12 percent over the past 20 years.

The fiscal 2013 year-end market value of the HBS endowment, plus the School’s current use funds, was \$2.9 billion at June 30, 2013, compared to \$2.7 billion a year earlier. This increase reflected the 11.3 percent net appreciation in market value and the subtraction of the School’s annual distribution and decapitalizations, offset by the \$31 million in endowment gifts received by HBS during the year.

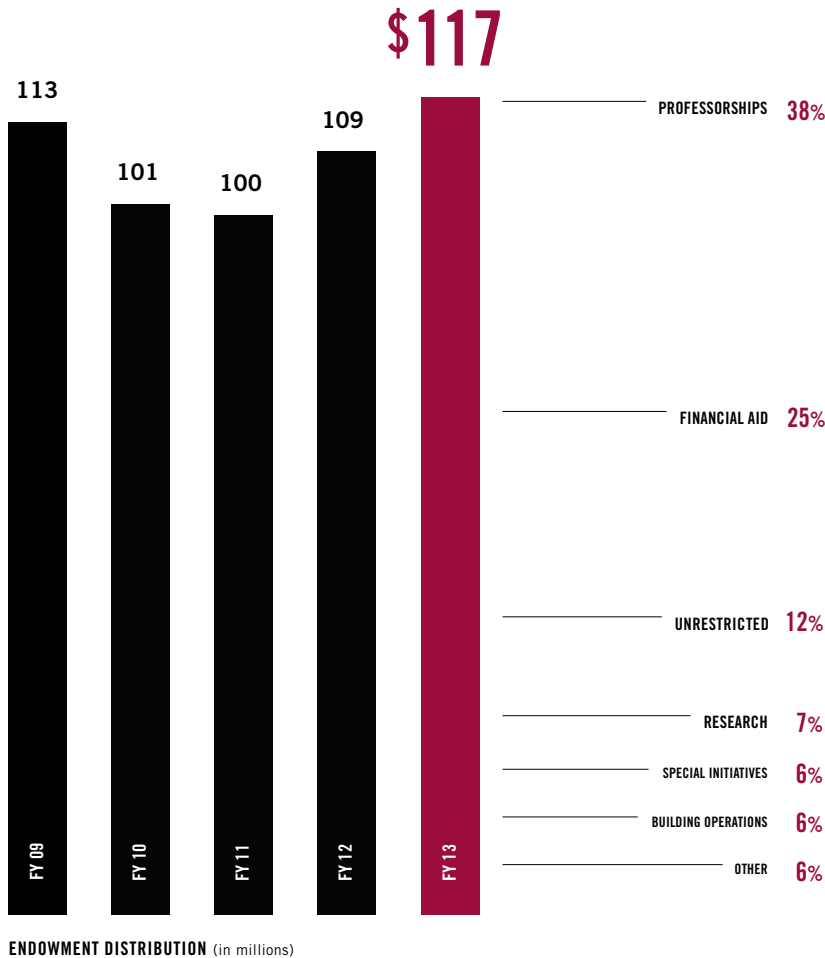


Other Revenues

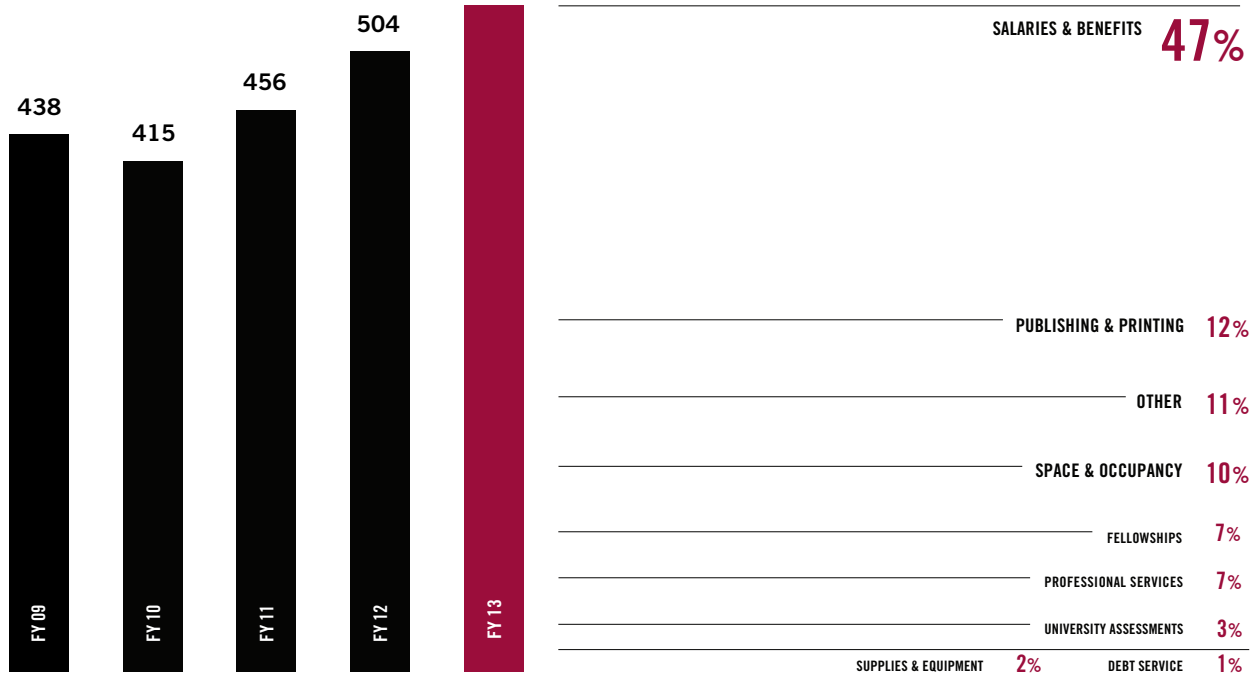
Revenue in the Housing, Rents, and Other category for fiscal 2013 increased 27 percent from the prior year to \$14 million. This was due to a combination of increases in MBA application revenue, rental and event income, and nondegree program revenue. Reflecting continued overall stability in interest rates during the year, the School's fiscal 2013 interest income was flat with the prior year at \$1 million.

Harvard Endowment Returns

FY 13	11.3%
FY 12	-0.1
FY 11	21.4
FY 10	11.0
FY 09	-27.3
FY 08	8.6
FY 07	23.0
FY 06	16.7
FY 05	19.2
FY 04	21.1
3-Year Growth	10.9%
10-Year Growth	10.5%



\$542 million



EXPENSES

The School's total operating expenses for fiscal 2013 increased by \$38 million, or 7 percent, from fiscal 2012 to \$542 million—within \$2 million of the amount budgeted for the year. About 50 percent of this increase reflected higher costs at HBP and Executive Education.

Although HBS characterizes these publishing and executive program costs as “expenses,” they would in large part be considered “cost of goods sold” in a profit-seeking enterprise. Expenses charged to HBP and Executive Education include direct costs for staff compensation, specialized outside professional services in functional areas such as I.T. and marketing, and residence expenses for Executive Education participants.

HBP and Executive Education both sustained solid gross margins and delivered healthy operating leverage on sales growth in fiscal 2013. As a result, despite incurring higher expenses and making substantial investments in future growth, each group provided important income contributions to the School's operations for the year.

Another key feature of the School's economic model is that faculty research expenses at HBS cut across several line items in the Statement of Activity & Cash Flows. The cost of faculty research includes a portion of faculty salary and benefits expense, as well as direct costs for research support staff and travel. Also included are allocated expenses for the School's network of global

research centers, as well as library resources, campus facilities, technology, and administration.

Salaries & Benefits

Employee compensation is the School's largest expense, comprising nearly 50 percent of total operating costs. Salaries and benefits expense increased 6 percent in fiscal 2013 to \$255 million, from \$241 million in the prior year. This marked slower year-over-year growth than in fiscal 2012, primarily reflecting a decline in the size of the faculty.

The total number of faculty at HBS, as measured in full-time equivalents (FTEs), can rise or fall in any given year as a result of retirements, departures, and fluctuations

in recruiting activity. Net of retirements and departures, the size of the faculty decreased by 5 FTEs to 227 in fiscal 2013, from 232 FTEs a year earlier.

In preparation for a third year executing on the School's strategic initiatives, the fiscal 2013 financial plan included continued growth in administrative staff. Nearly half of these new positions were added by HBP, which is expanding its presence outside the United States in an effort to drive revenue growth globally. This year's staff growth at HBP also reflected the insourcing of positions that were formerly filled by contractors.

Staff FTEs were also added to support the School's capital campaign and FIELD, and to improve business performance in Executive Education, among other initiatives. As a result, the School's total administrative staff budget grew to 1,335 FTEs in fiscal 2013, from 1,198 in the prior year.

Fellowships

HBS categorizes fellowships, or financial aid, as an expense line item on the Statement of Activity & Cash Flows. The prospect of entering or returning to the workforce with high levels of education debt can both deter strong MBA candidates from applying to HBS and restrict their career choices upon graduation. This is particularly true for women, as well as students who reside outside the United States, who recently graduated from college, or who have not reduced their undergraduate debt because of their early career paths.

Consequently, one of the School's long-standing goals is to assist students in minimizing their debt at graduation by ensuring that fellowship support at least keeps pace with tuition and fees. Total fellowship expense for fiscal 2013, including assistance for Doctoral candidates and a limited number of Executive Education participants, as well as for MBA students, increased by \$3 million from fiscal 2012 to \$40 million. Funding for fellowships comes primarily from restricted endowment and current use giving by HBS alumni and friends.

Publishing & Printing

Publishing and printing expense includes a small amount of cost related to the School's printed materials and publications as well as HBP's production costs. HBP's continuing growth in a fast-changing and highly competitive publishing environment reflects, in part, the success of the group's long-term program of strategic investment in digital infrastructure and content. Reflecting this investment, along with HBP's larger operational scale, the School's total publishing and printing expenses for fiscal 2013 increased by \$8 million from fiscal 2012 to \$67 million.

Space & Occupancy

The HBS campus includes 34 buildings encompassing nearly 1.7 million square feet of occupied space. Space and occupancy expense includes costs related to maintaining and operating the School's buildings and campus infrastructure. In addition, facilities improvement and renovation costs that do not qualify as capital expenses are generally categorized as space and occupancy.

Also included in space and occupancy are expenses related to dining facilities and other campus services, as well as costs associated with leased space that houses HBP's operations and the School's global research offices. In addition, residence expenses for Executive Education participants are reported under this category. The School's total space and occupancy expenses for fiscal 2013 grew by \$1 million from the prior year to \$48 million.

Professional Services

Professional services expense for fiscal 2013 increased by \$5 million from the prior year to \$40 million. This increase was primarily driven by spending for external resources related to I.T. upgrades in several of the School's programs and functions. In addition to growth-focused projects at HBP, these included, among others, the Executive Education group's implementation of an enhanced CRM platform; development of the School's next-generation Alumni website and related capital campaign infrastructure; and Learn-

ing Hub management system upgrades for the MBA and Doctoral programs.

Supplies & Equipment and Other Expenses

Spending in the Other Expenses category, which includes items such as travel and catering, increased by \$7 million in fiscal 2013 to \$59 million. The majority of this increase was driven by FIELD-related international travel costs, research database acquisitions, I.T. projects, and preparations for the School's capital campaign. Supplies and Equipment expense decreased by \$1 million from the prior year to \$9 million.

University Assessments

University assessments cover essential services provided to HBS by the University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. The amount charged to HBS in any given year is primarily calculated as a percentage of the School's total expenses. As expected, the School's expense in fiscal 2013 for these assessments increased by \$1 million from the prior year to \$18 million.

Debt Service

HBS finances major capital projects with a mix of four sources of funding. The most important sources are gifts, current-year internally generated cash, and unrestricted reserves. The School also makes strategic use of debt financed through the University as a means of optimizing its capital structure.

Relying on the University as its banker provides HBS, as well as the other Harvard schools, with access to debt on a triple-A-rated tax-exempt basis. The School borrows only to finance qualified capital projects, carefully considering the interest rate environment, expectations for the performance of the Harvard endowment, and the availability of University debt.

Reflecting this cautious approach, the School's balance sheet historically has been only modestly leveraged, and debt leverage remained low in fiscal 2013. HBS increased its capital investments

I.T. Investment (in millions)

FY 13	\$ 68
FY 12	54
FY 11	50
FY 10	40
FY 09	55

during the year to \$78 million, from \$51 million in the prior year. As in fiscal 2012, this growth was primarily funded by internally generated cash, and there were no new borrowings. HBS paid down \$8 million in building debt in fiscal 2013, compared to \$4 million a year earlier. As a result, the School's year-end fiscal 2013 building debt-to-asset ratio decreased to 2.5 percent, from 3.0 percent in the prior year. Other University debt—mainly consisting of repayment obligations to the University for mortgage loans made by HBS as a junior faculty recruiting incentive—was flat with fiscal 2012 at \$23 million.

The School's debt service expense consists of interest payments to the University and is covered by using cash from operations. Debt service expense for fiscal 2013 was flat with the prior year at \$6 million. As in fiscal 2012, this expense was mainly associated with borrowings to finance prior years' campus expansion. The interest portion of the School's debt service amounted to slightly more than 1 percent of total operating expenses in fiscal 2013.

CASH BEFORE CAPITAL ACTIVITIES

The School's cash from operations increased in fiscal 2013 by \$3 million from the prior year to \$45 million. As in fiscal 2012, this cash was largely generated by margin contributions from Executive Education and HBP, as well as the HBS community's generous giving to the School. In addition, use of restricted current use gifts, as well as cash from prior years' endowment gifts or appreciation, contributed \$22 million to the School's cash flow in fiscal 2013, compared to \$24 million in fiscal 2012. The net result was a \$1 million increase in cash before capital activities

Building Debt Outstanding (in millions)

FY 13	\$ 91
FY 12	99
FY 11	103
FY 10	112
FY 09	119

to \$67 million, from \$66 million in fiscal 2012.

NET CAPITAL EXPENSES

As noted above, the School's fiscal 2013 capital expenses, net of gifts used for capital projects, increased by \$27 million from the prior year to \$78 million. This growth was primarily attributable to the ongoing construction of Tata Hall, as spending related to that project more than doubled year-over-year to \$52 million.

The other major campus expansion projects in fiscal 2013 were the ongoing construction of tunnels to connect the new Executive Education buildings to the tunnel system and initial development work for the Chao Center. Capital investments in these two projects totaled nearly \$10 million. In addition, HBS continued to invest in numerous projects focused on the renewal and maintenance of buildings, infrastructure, and I.T. systems across the campus.

The increase in net capital expenses for fiscal 2013 also reflected \$26 million in advance payments for capital projects planned for fiscal 2014, described in the Statement of Activity & Cash Flows as Funding Capital Projects for Future Year.

NET DEBT & OTHER EXPENSES

Because gifts, internally generated cash, and unrestricted reserves have been available and sufficient to finance capital activities, fiscal 2013 marked the School's fifth consecutive year with no new borrowings. Debt principal payments increased to \$8 million, from \$4 million in fiscal 2012.

Other non-reserve activity in fiscal 2013 was negative \$2 million, compared with positive \$11 million in the prior year.

Together with the School's fiscal 2013 debt principal payments, the negative \$2 million in fiscal 2013 other non-reserve activity resulted in a decrease of \$10 million in Net Debt & Other for the year.

This compares to an increase of \$7 million in Net Debt & Other in fiscal 2012, which was largely a result of accounting adjustments related to the consolidation of HBP's financial results with those of the School, and to capital construction projects under way during the year.

ENDING BALANCE, UNRESTRICTED RESERVES

Together with a mix of internally generated cash, gifts, and debt, HBS relies on unrestricted reserves to finance major campus expansion projects and capitalize on unforeseen strategic opportunities. Nearly 56 percent of the School's revenues come from Executive Education and HBP—business units that are highly sensitive to the economy.

Consequently, maintaining an ample balance of unrestricted reserves outside the endowment is crucial in providing HBS with the sufficient liquidity to fulfill its educational and research mission on a long-term basis. Reflecting the School's continued healthy cash from operations, fiscal 2013 was a successful year in this regard. HBS sustained its operations while investing in the campus and in strategic innovation, while still concluding the year with a strong unrestricted reserves balance of \$83 million.

This document is intended to provide insight into the way Harvard Business School manages its resources and plans strategically for its future. Further information about the School can be found at www.hbs.edu.

This report can be viewed or downloaded at www.hbs.edu/annualreport.

Harvard Business School is led by the Dean of the Faculty in conjunction with various advisory and oversight groups comprising faculty, staff, alumni, academics, and business practitioners. Harvard University appoints a Visiting Committee to review Harvard Business School's strategic goals and objectives and to provide advice and input to the Dean. The group meets biannually and reports to Harvard University's Board of Overseers.

We welcome questions and comments from our readers. Please direct correspondence to Richard Melnick, Chief Financial Officer: rmelnick@hbs.edu or to the Office of the Dean: officedean@hbs.edu.

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