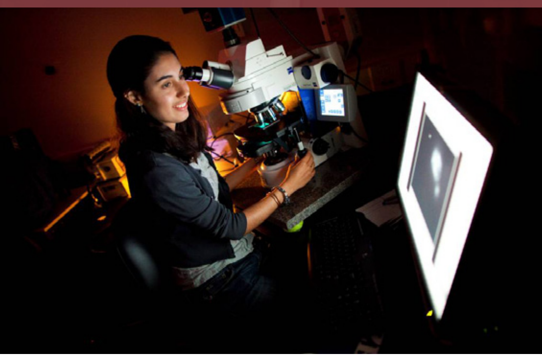

HARVARD UNIVERSITY
FINANCIAL REPORT

FISCAL YEAR **2011**

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Message from the President

I write to report Harvard University's financial results for fiscal 2011.

The year ended June 30, 2011, saw the completion of the second year of sharp reductions in endowment distributions but also important investments in the University's future as we prepared to celebrate Harvard's 375th anniversary. We sustained our strong commitment to financial aid for low- and middle-income families to ensure that we continue to bring the very best students to Harvard, regardless of their economic circumstances. We continued to expand Harvard's international engagement and we launched planning and construction of the Harvard Innovation Lab to catalyze entrepreneurial opportunities for students and faculty across the University and members of the broader community. We vigorously pursued initiatives in science and engineering, and in interdisciplinary domains such as global health and energy and the environment, while celebrating the dedication of the Mahindra Humanities Center and bringing the arts that thrive across campus ever closer to the classroom experience. We also pushed ahead with the first stage of renewal of our undergraduate houses, re-oriented long-term planning for Harvard's future in Allston, and started developing priorities for our coming University campaign.

This year also saw strengthening of the University's governance with the historic reconfiguration and expansion of the Corporation including the appointment of three new members, Lawrence S. Bacow, Susan L. Graham, and Joseph J. O'Donnell. We welcomed a new provost, Alan Garber, to help lead our academic endeavors. And the endowment portfolio had a strong year under the leadership of CEO and President Jane Mendillo, earning an investment return of 21.4 % with a year-end value of $32.0 billion.

The result of all of this activity is a renewed sense of momentum for the University and optimism about the opportunities before us. But we must not lose sight of the fact that we operate in an environment of national and international uncertainty, one which challenges us to manage the tension between prudence and ambition, between appropriate caution and necessary action in the face of a changing competitive landscape for higher education.

As we celebrate Harvard's 375th year, we need to envision what we want the institution to look like when it turns 400. The changing shape of knowledge is redefining disciplinary identities and boundaries, making the greater collaboration among Harvard schools and programs an imperative. Changing financial realities require an ongoing examination of our funding model with its reliance on government support, endowment returns, and tuition – all of which are expected to be either declining or constrained in the years ahead.

We must balance the need to position ourselves in relationship to longer-term change with the imperative to take necessary shorter-term actions to strengthen institutional structures and academic programs. The self-scrutiny prompted by the 2008 financial downturn has resulted in a number of important transformations at Harvard, changes that have brought greater integration and effectiveness to our activities in both the academic and administrative realms. Building "one university," integrating programs and activities to build a whole greater than its parts, remains among our most important priorities.

Helping to imagine the world anew remains at the heart of what we do and I am grateful for the contributions of everyone in the Harvard community who has helped make the significant progress of this past academic year possible.

Sincerely,

Drew Gilpin Faust

Drew Gilpin Faust
PRESIDENT

October 28, 2011

Financial Overview

From the Vice President for Finance and the Treasurer

In its fiscal year ended June 30, 2011, the University continued to strengthen its balance sheet, maintain and selectively invest in key academic and research programs, and thoughtfully manage expenses. While the University's operating deficit increased, the reserves we have built over time give us flexibility in funding deficits as we move through a considered process of change. In this climate of considerable economic volatility and significant uncertainty, we recognize the University's responsibility to continue to find more efficient and effective ways of doing business.

The University is focusing attention on initiatives to prudently manage or reduce costs, and to explore the potential of generating additional revenue. We expect that these efforts, guided by the leadership of President Faust, our new Provost Alan Garber, Executive Vice President Katie Lapp, and the University's Corporation and its new Finance Committee, will bring revenue and expense into balance, and position Harvard well to address future financial management challenges and opportunities.

The University's operating deficit increased from $0.9 million in fiscal 2010 to $130.0 million in fiscal 2011. Note that investment gains and losses (including gains and losses associated with the endowment) are not included in the University's operating result but are reflected on its balance sheet. Notwithstanding the fiscal 2011 deficit, the University's net assets increased by $5.3 billion, from $31.7 billion at June 30, 2010 to $37.0 billion at June 30, 2011.

The fiscal 2011 operating deficit was not unexpected. In the wake of the global financial crisis, Harvard committed to adapting to new financial circumstances as quickly as practicable, but with sufficient care and diligence to maintain and enhance the University's excellence. The University's reserve position affords us the ability to emphasize quality over speed as we evaluate opportunities to reduce expenses and increase revenue – although we will not be satisfied relying on reserves for an indefinite period.

In light of the operating deficit and continuing budgetary uncertainties, the University is pursuing a number of strategies that will help to reduce ongoing costs and enable high-priority programmatic reinvestment in the years ahead. For example, the University is implementing a new enterprise procurement system that will enable us to aggregate more of our purchasing and thereby gain leverage with vendors. We also are in the early stages of reorganizing the University's libraries and consolidating many of our information technology activities (including the merger of the University's two largest IT organizations in the central administration and the Faculty of Arts and Sciences). Our goal in each of these endeavors is to consider aggregations of activities that can be more efficiently done at scale, without compromising service level requirements.

SUMMARY OF FINANCIAL RESULTS

In millions of dollars	2011	2010	2009	2008	2007
Total revenue	$ 3,777.7	$ 3,739.0	$ 3,807.4	$ 3,482.3	$ 3,210.5
Total expenses	3,907.6	3,739.9	3,762.1	3,464.9	3,170.7
Total gifts	639.1	597.0	597.1	690.1	615.0
Total investments	39,192.9	33,933.7	31,480.3	43,804.3	41,832.9
Fixed assets, net	5,647.1	5,500.6	5,393.5	4,951.3	4,524.2
Bonds and notes payable	6,335.7	6,284.2	5,980.5	4,089.9	3,847.0
Net assets–General Operating Account	4,500.4	3,747.9	3,580.3	6,327.0	5,988.4
Net assets–endowment funds	32,012.7	27,565.0	26,138.2	37,174.8	35,362.3

OPERATING REVENUE

Total operating revenue increased 1%, to $3.8 billion. Sponsored revenue increased due to incremental activity on awards made to the University under the American Recovery and Reinvestment Act (ARRA). This increase, combined with continued growth in net student income and a return to strong positive growth in current use giving, offset a significant decline in endowment returns made available for operations.

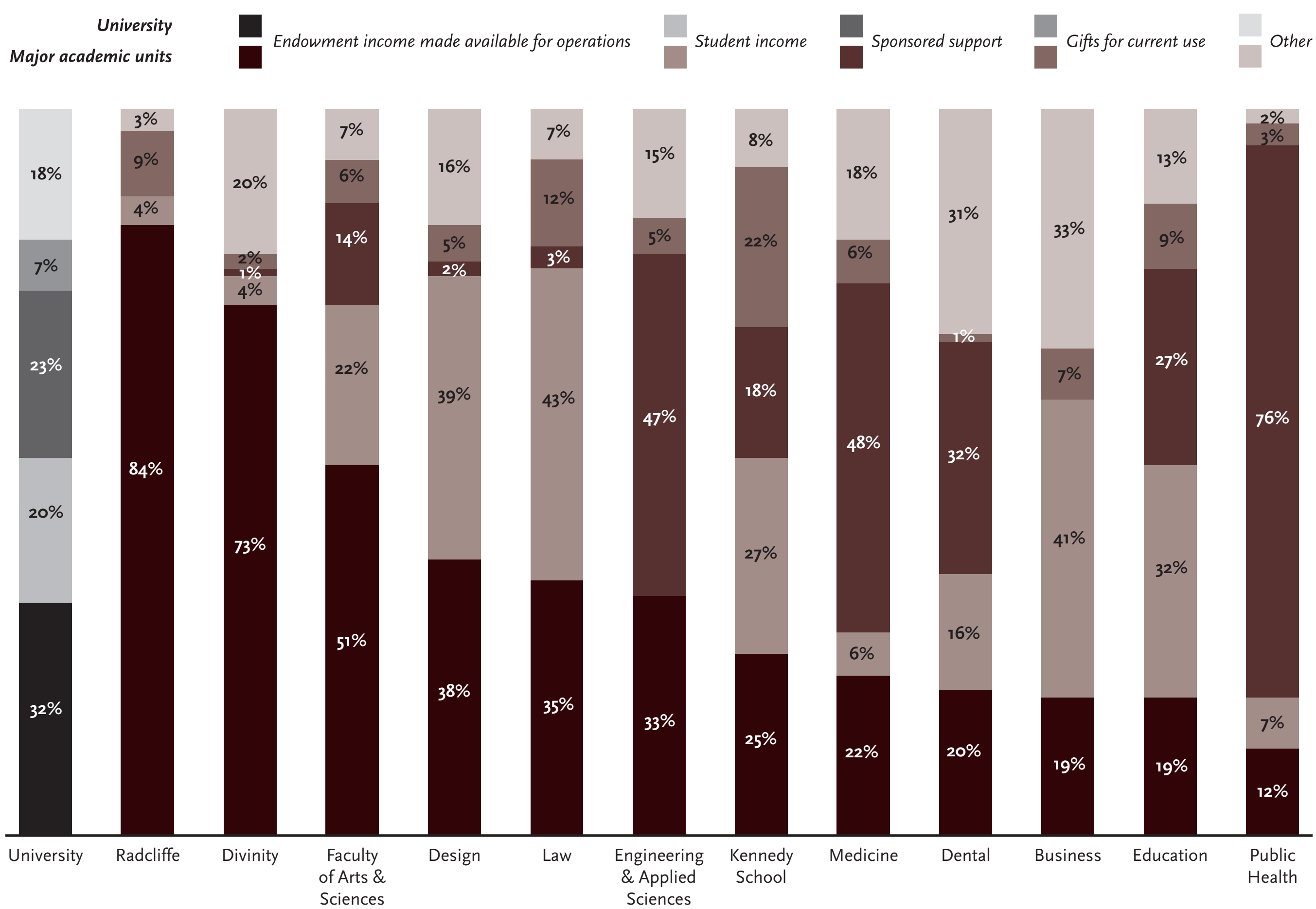
As part of absorbing the endowment's fiscal 2009 market value decline into operations, the University's total distribution from the endowment declined by 10%, from $1.3 billion in fiscal 2010 to $1.2 billion in fiscal 2011. In the aggregate, Harvard's payout rate (i.e., the percentage of the endowment withdrawn annually for operations and for one-time or time-limited strategic purposes) was 5.3% in fiscal 2011, in line with the University's targeted payout rate range of 5.0-5.5%. This range is intended to balance the maintenance of the endowment's purchasing power for future generations with the desire to pursue nearer-term opportunities.

In light of positive investment results in fiscal 2010 and 2011, the University is planning to resume positive growth in the distribution in both fiscal 2012 and fiscal 2013 while maintaining a payout rate within the targeted range.

The University's sponsored funding increased by 10%, from $777 million in fiscal 2010 to $852 million in fiscal 2011. The federal government provided $686 million in sponsored funding, or more than 80% of the total. As of June 30, 2011, Harvard had received 310 ARRA awards, totaling $240 million, of which $86 million was spent in fiscal 2011, compared to $48 million in fiscal 2010. The University expects to deploy the substantial remainder of ARRA funds over the next two years.

While Harvard's research enterprise is strong, we are mindful of federal budget constraints, and the strong possibility that extramural government funding of biomedical research will decline. Significantly reduced levels of support could have a material adverse effect over time on the University's operating results.

FISCAL 2011 SOURCES OF OPERATING REVENUE



Student revenue increased 4%, from $712 million in fiscal 2010 to $741 million in fiscal 2011, driven principally by increases in revenue from continuing education and executive education programs. Undergraduate net student revenue (i.e., undergraduate tuition, fees, board and lodging, less scholarships applied to student income) increased by only 2%, reflective of Harvard's continuing commitment to financial aid. More than 60% of undergraduates received financial aid from Harvard in fiscal 2011. These families paid an average of $11,500 for tuition and room and board, representing a 77% discount. For the Class of 2015, Harvard received a record 34,950 applicants, with a 6.2% admit rate and a 77% yield rate.

Current use gifts increased by 12%, from $248 million in fiscal 2010 to $277 million in fiscal 2011. Total giving, including gifts designated as endowment, increased 7% to $639 million (see Note 17 of the audited financial statements). This level of giving represents the third highest total in the University's history. We are extremely grateful for the generosity of our donor community. Among the most notable gifts were the largest gift dedicated to the study of humanities in the University's history, and the largest international gift to the Harvard Business School to enable the construction of a new executive education facility on the Allston campus.

OPERATING EXPENSES

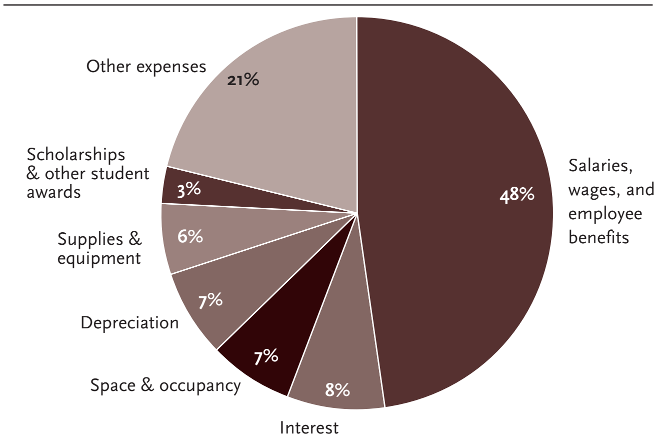
Operating expenses totaled $3.9 billion, a 4% increase compared to fiscal 2010.

Compensation expenses (i.e., salaries, wages and benefits) represented approximately half of the University's total operating expenses in fiscal 2011. Compensation increased by 5%, or $92 million, from $1.8 billion in fiscal 2010 to $1.9 billion in fiscal 2011.

Salaries and wages increased by 4%, or $57 million, to $1.4 billion in fiscal 2011, due in part to the resumption of modest wage growth. Employee benefit expenses grew 8%, or $35 million, to $461 million. This increase was driven by rising healthcare costs, and changes in accounting assumptions used to estimate the University's projected future costs for participants in defined benefit pension plans. Over the past 10 years, benefits expense has increased at a compound rate of 10%. This rate of growth has exceeded overall budgetary growth, causing benefits as a percentage of the University's overall expenses to increase from 8% in fiscal 2001 to 12% in fiscal 2011. Similarly, as a percentage of salaries and wages, benefits expense has increased from 20% in 2001 to 32% in fiscal 2011. While the phenomenon of disproportionate growth in benefits costs is not unique to Harvard, the steep trajectory of the past decade cannot be sustained. In the coming years, the University will both build on its past successes in improving the efficiency of benefits administration, and continue to review its benefits offerings to ensure that they are in the aggregate both competitive and affordable.

Non-compensation expenses grew by $76 million, or 4%, from $1.9 billion in fiscal 2010 to $2.0 billion in fiscal 2011. However, excluding interest expense and non-compensation expenditures covered by ARRA and other sponsored funding, this category of expenditures grew by only 2%. This result is consistent with the University's continued strong focus on expense management and oversight.

FISCAL 2011 OPERATING EXPENSES



BALANCE SHEET

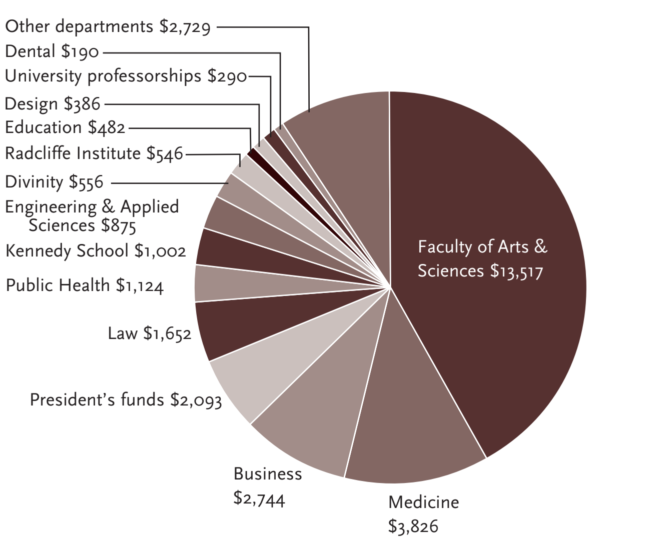
Investments

In fiscal 2011, the endowment generated positive investment returns of 21.4%, and its value (after the impact of endowment returns made available for operations and the addition of new gifts to the endowment during the year) increased from $27.6 billion at the end of fiscal 2010 to $32.0 billion at the end of fiscal 2011. More information can be found in the Message from the CEO of Harvard Management Company, found on page 8 of this report.

The University's holdings of liquid investments (e.g., cash and treasuries) outside the General Investment Account increased slightly, to $1.1 billion at June 30, 2011. The General Investment Account is managed by Harvard Management Company (HMC) and includes the endowment as well as a portion of the University's pooled operating funds. Over the past several years, the University has made substantial progress in developing integrated liquidity management strategies and in coordinating the cash management activities taking place at HMC and the University.

FAIR VALUE OF THE ENDOWMENT AS OF JUNE 30, 2011

In millions of dollars



TOTAL FAIR VALUE $32,012

Debt

The University had $6.3 billion of debt outstanding at June 30, 2011, reflecting no growth compared to June 30, 2010. Debt raised by the University to fund capital projects was offset by the early redemption of $300 million of taxable debt that had been issued in December 2008 for operational flexibility during the financial crisis. During fiscal 2011, the University also made further progress to reduce the liquidity risk of its debt portfolio. Since 2008, Harvard has reduced the percentage of outstanding debt that can be put back to the University with short-term notice (typically after one day or one week), or that matures in less than one year, from approximately 50% to 10%.

Interest expense increased 12%, from $266 million in fiscal 2010 to $299 million in fiscal 2011. The higher interest expense reflects two primary factors – (i) average debt outstanding during the year was approximately 5% higher in fiscal 2011 (the $300 million early redemption occurred in June 2011), and (ii) the University continued to shift its mix of fixed/floating rate debt more heavily toward fixed.

The University continues to maintain its AAA/Aaa credit ratings with Standard & Poor's and Moody's Investors Service, both of which were affirmed in connection with our most recent bond issue in November 2010. More detail on the bond issuance, and the University's broader debt portfolio, can be found in Note 12 of the audited financial statements.

Capital Expenditures

The University invested $314 million in capital projects during fiscal 2011. This enabled progress on several significant capital projects during fiscal 2011, including continued work on the Harvard Art Museums' renovation and expansion of 32 Quincy Street; the Harvard Law School's construction of a new building at the northwest corner of the Cambridge campus; and the renovation of the Sherman Fairchild building to create new space for the University's Department of Stem Cell and Regenerative Biology.

In 2010, after completion of the below grade structure, Harvard paused construction on the site of the planned Allston Science Complex. Nonetheless, over the past year, Harvard has continued to develop Allston properties in order to advance three objectives laid out by President Faust in December of 2009: property stewardship and community engagement; greening and land use planning; and, as resources allow, campus development. Highlights of the past year include 13 new leases on Allston properties; design, permitting and construction of the

Harvard Innovation Lab on Western Avenue; regulatory approval of Tata Hall, a $100 million project that will expand Harvard Business School's capacity for executive education; the extension of the Ed Portal into new space; and the opening of Library Park, a new two acre public park behind the Allston Honan Library. In addition, an Allston Work Team, commissioned by the President and comprised of Deans and key alumni, evaluated options and issued recommendations for near-term development in Allston. President Faust and the Corporation recently adopted these recommendations, and will pursue them in two phases, starting this academic year.

Looking ahead, several new projects are slated for ground-breaking, including the Faculty of Arts and Sciences' renovation of Old Quincy – the first in a series of projects intended to revitalize and strengthen the undergraduate house system.

SUMMARY

We end fiscal year 2011 in a strong financial position and with many initiatives underway that will serve to make the University better able to deliver on preparing students for leadership and lives of meaning and value; advancing the course of knowledge and ideas; and serving society. Many of the efforts started in fiscal 2011 could require several years before yielding a significant financial impact. Our financial position gives us the ability to undertake projects that are ambitious in scale and complexity, recognizing that they will serve the University best over the long term.

Although our financial position is strong, we recognize that our revenue sources are under pressure and that the economic climate is marked by uncertainty. As a result, we look to fiscal year 2012 and beyond with a continued commitment to prudent expense management, including strategic cost reductions where possible and investments to increase efficiency. We also recognize there are opportunities to achieve further diversification in our revenue base, and we are beginning the process of exploring those possibilities.

As always, the commitment and dedication of our students, faculty, staff, alumni and friends remains the most valuable asset of the University. We have every confidence that this unparalleled community will embrace the opportunities in front of us, and meet the interesting challenges we most surely will face along the way. To this community, we offer our thanks and sincere appreciation.

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

James F. Rothenberg
TREASURER

October 28, 2011

Message from the CEO of Harvard Management Company

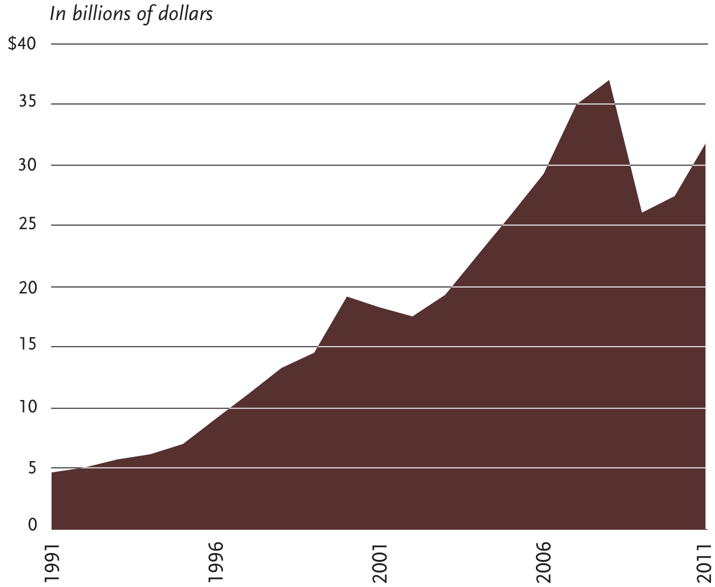
The return on the Harvard endowment for the fiscal year ended June 30, 2011 was strong. The endowment portfolio earned an investment return of 21.4% and was valued at $32 billion at the end of the fiscal year. The portfolio's performance was 120 basis points ahead of the 20.2% return on our Policy Portfolio benchmark. Adding value over our Policy Portfolio – beating the markets – is not easily done and is not expected every year, so we are gratified by this result.

Many of the sectors in which we invest experienced robust returns during the year ended June 30, and a number of our strategies within those markets did quite well. At Harvard Management Company ("HMC") we focus on actively managing the University's endowment to satisfy three primary objectives: growth, liquidity and risk management. We are pleased to report that our progress in fiscal year 2011 was significant along each of these dimensions. Even with the extreme volatility that has gripped financial markets in the months since our fiscal year closed we are confident that our portfolio, while impacted by adverse markets, is well positioned to support Harvard's mission.

We are committed to our stance as long-term investors, refining our edge and maintaining our discipline through up and down markets. While there has been some healing of the financial wounds inflicted during the crisis of 2008-2009, the portfolio and the University are still feeling the aftermath of that difficult period. The endowment value has not returned to its pre-crisis level. Given the University's high degree of dependence on the endowment for its operations, we are ever-more convinced that strengthening the portfolio for steady growth over many years will yield the best long-term results for Harvard.

TOTAL VALUE OF THE ENDOWMENT[1]

In billions of dollars



[1] *The Harvard endowment is the most significant component of the University's general investment account managed by HMC.*

HISTORICAL CONTEXT

Over the past two decades the average annual return on the endowment has been a robust 12.9%, beating both our Policy Portfolio benchmark and a simple 60/40 stock/bond portfolio by substantial margins.

HISTORICAL INVESTMENT RETURN
ANNUALIZED FOR PERIODS GREATER THAN ONE YEAR

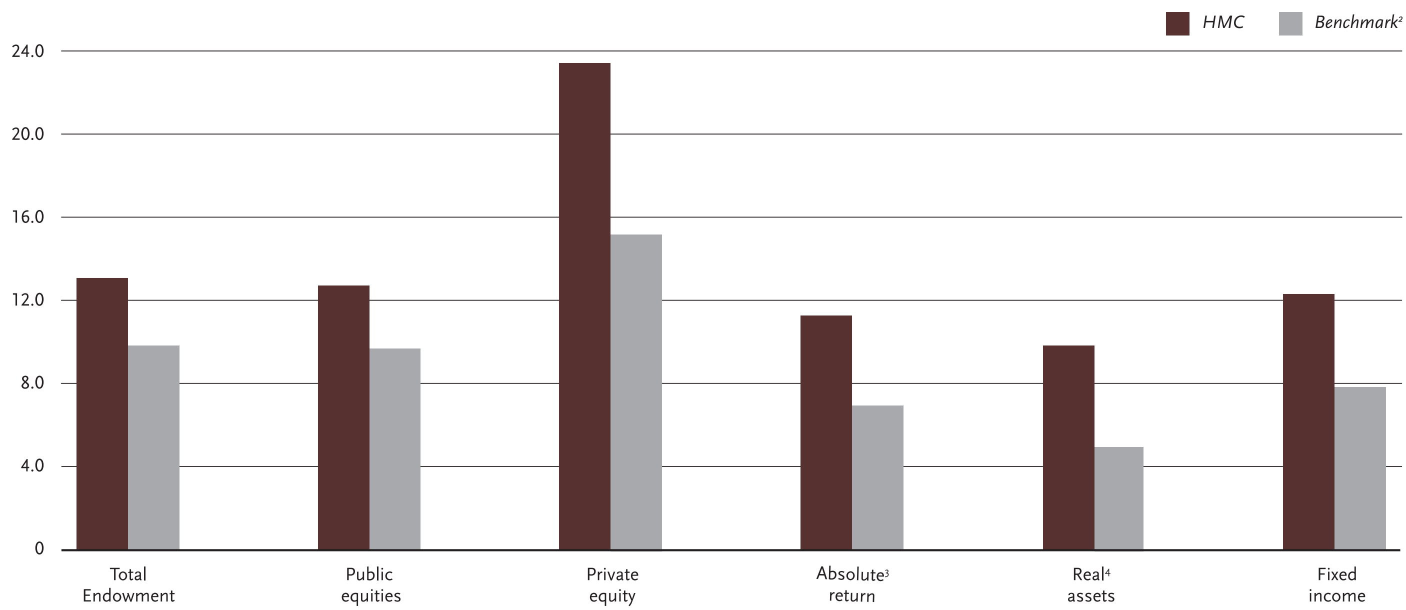
	Harvard[1]	Policy Portfolio Benchmark[2]	60/40 Stock/bond Portfolio[3]
1 year	21.4%	20.2%	19.5%
5 years	5.5	4.3	4.9
10 years	9.4	6.7	4.3
20 years	12.9	9.8	8.3

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

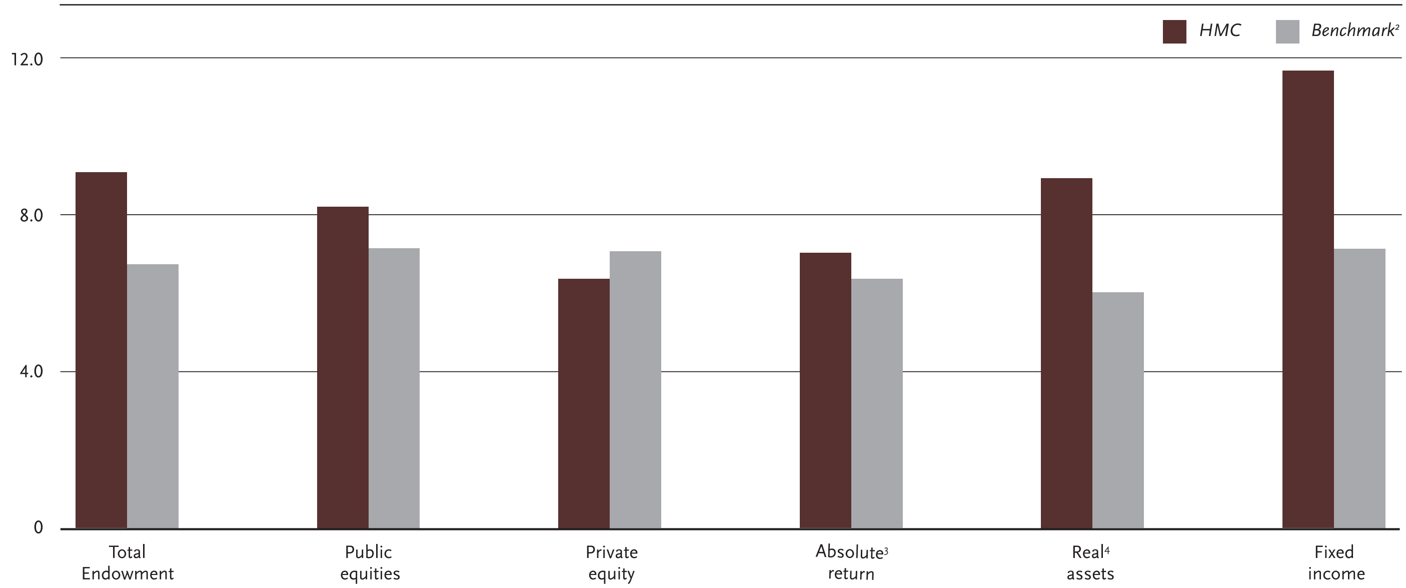
This performance is notable when we remember that there were three very difficult periods in the financial markets during these twenty years: the collapse of Long Term Capital Management in 1998, the bursting of the tech bubble in 2000-2001, and the financial crisis of 2008-2009. Despite these challenges, over this twenty-year period, performance across all asset classes has been strong in both nominal and relative terms.

Over the last decade the Harvard endowment has outperformed its benchmark by 270 basis points per year, and has also outperformed a 60/40 stock/bond portfolio by 510 basis points per year – adding roughly $15 billion of value versus what would have been earned by a more traditional portfolio.

ANNUALIZED TWENTY-YEAR PERFORMANCE BY ASSET CLASS[1]



ANNUALIZED TEN-YEAR PERFORMANCE BY ASSET CLASS[1]



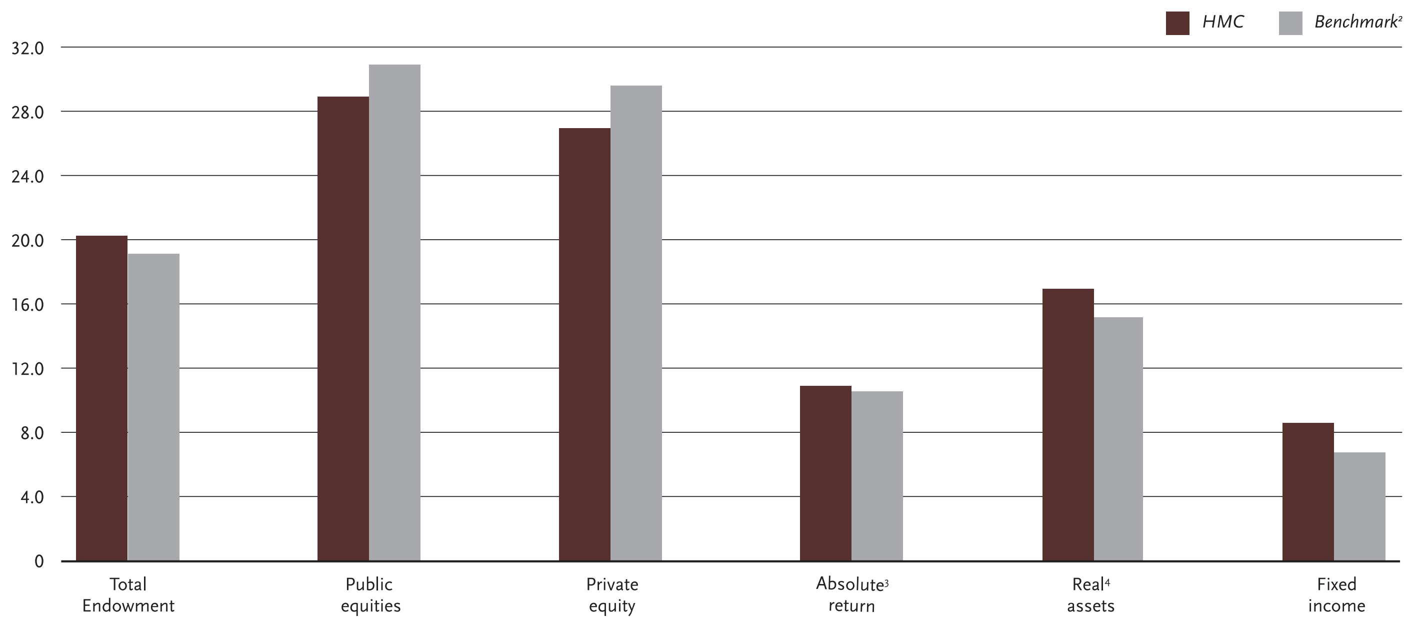
1 *Returns are calculated on a time-weighted basis with the exception of private equity and real assets, which are calculated on a dollar-weighted basis. Returns are net of all internal and external management fees and expenses.*
2 *Individual benchmarks are representative of each asset class and are approved by the Board of Directors of HMC.*
3 *Absolute return asset class includes high yield.*
4 *Real assets consist of investments in liquid commodities, natural resources and real estate.*

DISCUSSION OF FISCAL YEAR 2011

As a measure of the strength of the endowment's return in fiscal year 2011, every asset class had a positive nominal return, led by an outstanding 34.6% achieved for our domestic equities portfolio (versus a benchmark of 31.9%). The public and private equity markets were generally robust over the period, although by the end of the fiscal year the long upward climb in equity market values that started in March 2009 lost momentum. During the June 2011 quarter the S&P 500 was up only 0.1%.

Our domestic equity strategies, both internal and external, were largely successful in adding value over their benchmarks. However, our overall public equities, including foreign and emerging markets, lagged the markets. Public equities in total were up 28.3%, versus our aggregate equities benchmark of 30.4% (as shown below). Emerging markets equities had a difficult time keeping up in the context of wide dispersions in returns from one country to another. Russia, for example, gained 47.3% during the year, while India was up only 8%, and China and Brazil fell between these extremes. Although emerging economies broadly showed signs of cooling during the second half of the fiscal year, with negative returns in many countries during that time, our confidence in this area is still high. The potential for significant long-term returns in emerging markets is great as they continue to grow and become even more major consumers and suppliers to the rest of the world.

ONE-YEAR PERFORMANCE BY ASSET CLASS[1]



[1] *Returns are calculated on a time-weighted basis with the exception of private equity and real assets, which are calculated on a dollar-weighted basis. Returns are net of all internal and external management fees and expenses.*

[2] *Individual benchmarks are representative of each asset class and are approved by the Board of Directors of HMC.*

[3] *Absolute return asset class includes high yield.*

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

Outside of the public equity markets we also had very significant positive nominal returns in private equity (+26.2%), public commodities (+26.9%), and foreign bonds (+21.7%). Our entire fixed income team delivered excellent performance, with an average return across all market segments (U.S. treasuries, inflation-linked bonds, and sovereign debt) of 9.1% versus 6.9% for the aggregate fixed income benchmark.

We also had significant gains in our natural resources portfolio (reflected above under Real Assets). This portfolio, representing approximately 10% of the total endowment, is comprised of hard assets (as opposed to securities): primarily timberland, but also agricultural and other resource-bearing properties located on five continents. Our team, built over the last decade, is widely regarded as one of the world's best in this sector. We started investing in timberland properties in the 1990s and as a result we have benefited from a meaningful first mover advantage. The investment return on the natural resources portfolio last year was 18.8% and over the last ten years has been 12.8% annually.

Absolute return, our portfolio of external hedge fund managers with strategies that are less correlated to public markets, returned approximately 11.6% for the year, beating its industry benchmark by about 200 basis points. We have restructured our absolute return portfolio significantly over the last few years and are now happier with the mix of managers and strategies it contains: a variety of approaches to generating value ranging from purely opportunistic to long/short to unusual investments such as royalty streams. When public equity markets do not do as well as they did this past fiscal year, we expect this segment of our portfolio to continue to produce stable risk-adjusted returns over the economic cycle.

Our real estate portfolio had a strong double-digit return in the fiscal year (+11%), although it lagged its industry benchmark. The real estate market has many components, which generated a wide range of returns during this period and our portfolio has exposure across the spectrum. Fully leased core properties were highly sought-after by investors, often from overseas, and prices for these properties were strong. We were able to sell some of our portfolio properties in this category at excellent values. However, while prices in core real estate were escalating rapidly, other types of real estate are recovering much more slowly following the 2008-2009 crisis. Our recently expanded real estate team is currently reshaping the portfolio to enhance its return/risk profile. The team has established a number of promising joint venture partnerships and is making investments in inefficient pockets of the global real estate market.

ORGANIZATION AND TALENT

This year has been an active and productive one across our organization. One of my goals as CEO of HMC is to encourage greater interchange among the talented individuals in our company, believing that we will benefit from a higher degree of cross-fertilization in our work. Through changes to our organizational structure and greater use of integrated teams, we have begun to see tangible positive results from this shift in culture. Whether we are analyzing the pluses and minuses of hard asset investments outside of the U.S., or commodities exposure in liquid or illiquid markets, or real estate risks in the form of financial instruments versus bricks and mortar, we are gaining deeper insights by bringing together people that work daily in public markets, private markets, traditional assets, alternatives, derivatives and U.S. and foreign currency. While many large endowments might have access to some similar resources through external managers and consultants, none have the benefit of such a diverse team of experts who walk in the door each morning, where they can be called into an impromptu meeting or assigned to a new cross-disciplinary investigation at a moment's notice.

On the subject of hiring, we have been fortunate during the year and have made several important additions to our team. We have a new internal group focusing on credit markets, and a recent in-house addition who is expert in trading Chinese equities. We have also added active commodities trading to our internal management capabilities. At the same time we have filled-out our real estate team and added significantly to our risk group and investment support organization.

The HMC team overall is in great shape, with a strong bench of talent across all key areas, and we are close to where we need to be for the long term. We still plan to expand our internal team, consistent with our goal of judiciously shifting assets from external managers back to our internal platform over the next several years. Given the benefits of our hybrid model, including the alignment of interests, cost efficiency, and greater transparency we gain, it makes good sense for Harvard to allocate a larger proportion of the total portfolio to internal management in the coming years. Even as we add to internally managed assets, our externally managed portfolio will continue to be important for the investment activities that we either cannot or prefer not to pursue from the internal side. It also gives us tremendous geographic reach and breadth.

OUTLOOK

Since the end of the fiscal year the markets have been exceptionally volatile, driven by concern and uncertainty related to the debt ceiling debate, the fate of the euro zone, the S&P downgrade of the U.S. Treasury securities, and indications of slowing growth in economies at home and abroad. The impact of these issues on our portfolio is unavoidable. The good news is that we have gained flexibility through the restructuring of the portfolio in recent years which allows us to take some advantage of declining valuations under the right circumstances. At the same time, our team is more global in its perspective than ever before and the critical role of risk management, within HMC and between HMC and the University, is much improved.

One thing we know for certain is that change in the investment world is inevitable. At our company we have stressed a culture of learning and continuous improvement across all parts of the organization and the portfolio. Although current markets are certainly difficult, and future returns may be uncertain, we remain focused on our mission and are confident that HMC will deliver strong long-term returns for Harvard University.

Thank you for your support.

Jane L. Mendillo
President and Chief Executive Officer

October 28 , 2011

THE POLICY PORTFOLIO AND LONG-TERM EXPECTED RETURNS

The Policy Portfolio – that is, the mix of asset classes that we and the HMC Board determine is best equipped to meet Harvard's needs over the long term – provides HMC with a guide as to the actual allocation of the investment portfolio and also serves as a measuring stick against which we judge the success of our active management strategies. Each year we develop and review a long-term expected return for each of our asset classes which informs our thinking and debate around the construction of the Policy Portfolio.

In fiscal year 2011 the group within HMC responsible for arriving at the asset-class-by-asset-class expected returns was led by one of our internal equity portfolio managers. An internal team of risk, analytics and investment professionals worked with portfolio managers within HMC, as well as with our Board and our Chief Risk Officer, to develop a rigorous framework for projecting future capital markets returns. This cross-disciplinary work was instrumental in driving our discussion with the Board this year about the "right" target mix of assets for Harvard – and therefore the incremental evolution of our Policy Portfolio.

	Fiscal year		
	1995	2005	2012
Domestic equities	38%	15%	12%
Foreign equities	15	10	12
Emerging markets	5	5	12
Private equities	12	13	12
Total equities	70	43	48
Absolute return	0	12	16
Commodities	6	13	14
Real estate	7	10	9
Total real assets	13	23	23
Domestic bonds	15	11	4
Foreign bonds	5	5	3
High yield	2	5	2
Inflation-indexed bonds	0	6	4
Total fixed income	22	27	13
Cash	-5	-5	0
TOTAL	**100%**	**100%**	**100%**

Report of Independent Auditors

To the Board of Overseers of Harvard College:

In our opinion, the accompanying Balance Sheet and the related Statements of Changes in Net Assets with General Operating Account Detail, Changes in Net Assets of the Endowment, and Cash Flows, present fairly, in all material respects, the financial position of Harvard University (the "University") at June 30, 2011, and the changes in its net assets of the General Operating Account and endowment funds and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's fiscal 2010 financial statements, and in our report dated October 15, 2010, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes 2 and 3, the University adopted new guidance related to the presentation of non-controlling interests in consolidated entities.

PricewaterhouseCoopers LLP

October 28, 2011

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BALANCE SHEETS

with summarized financial information as of June 30, 2010

In thousands of dollars	June 30 2011	June 30 2010
ASSETS:		
Cash	$ **142,503**	$ 31,629
Receivables, net (*Note 6*)	**259,953**	242,474
Prepayments and deferred charges	**163,886**	165,511
Notes receivable, net (*Note 7*)	**363,356**	364,309
Pledges receivable, net (*Note 8*)	**758,441**	772,212
Fixed assets, net (*Note 9*)	**5,647,077**	5,500,585
Interests in trusts held by others (*Note 4*)	**351,408**	297,629
Investment portfolio, at fair value (*Notes 3 and 4*)	**46,760,472**	36,701,525
Securities pledged to counterparties, at fair value (*Notes 3 and 4*)	**6,768,202**	4,158,201
TOTAL ASSETS	**61,215,298**	**48,234,075**
LIABILITIES:		
Accounts payable	**344,732**	336,007
Deposits and other liabilities	**679,326**	679,382
Securities lending and other liabilities associated with the investment portfolio (*Notes 3, 4 and 12*)	**14,335,814**	6,926,031
Liabilities due under split interest agreements (*Note 11*)	**771,568**	705,601
Bonds and notes payable (*Note 12*)	**6,335,709**	6,284,197
Accrued retirement obligations (*Note 13*)	**817,885**	909,193
Government loan advances (*Note 7*)	**66,987**	61,396
TOTAL LIABILITIES	**23,352,021**	**15,901,807**
NET ASSETS, attributable to non-controlling interests in the pooled general investment account (*Note 3*)	**832,339**	**597,335**
NET ASSETS, attributable to the University	**37,030,938**	**31,734,933**
TOTAL LIABILITIES AND NET ASSETS	**$ 61,215,298**	**$ 48,234,075**

	Unrestricted	Temporarily restricted	Permanently restricted	June 30 2011	June 30 2010
NET ASSETS, attributable to the University:					
General Operating Account (*Note 14*)	$ 3,163,225	$ 1,241,098	$ 96,097	$ 4,500,420	$ 3,747,931
Endowment (*Note 10*)	5,595,780	21,208,693	5,208,256	32,012,729	27,565,029
Split interest agreements (*Note 11*)		73,973	443,816	517,789	421,973
TOTAL NET ASSETS, attributable to the University	**$ 8,759,005**	**$ 22,523,764**	**$ 5,748,169**	**$ 37,030,938**	**$ 31,734,933**

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

STATEMENTS OF CHANGES IN NET ASSETS WITH GENERAL OPERATING ACCOUNT DETAIL

with summarized financial information for the year ended June 30, 2010

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30 2011	2010
OPERATING REVENUE:					
Student income:					
Undergraduate program	$ 254,095			$ **254,095**	$ 245,885
Graduate and professional degree programs	411,152			**411,152**	394,917
Board and lodging	149,972			**149,972**	147,735
Continuing education and executive programs	260,390			**260,390**	242,212
Scholarships applied to student income (*Note 15*)	(335,036)			**(335,036)**	(318,911)
Total student income	740,573	0	0	**740,573**	**711,838**
Sponsored support (*Note 16*):					
Federal government - direct costs	509,958			**509,958**	463,009
Federal government - indirect costs	176,270			**176,270**	157,516
Non-federal sponsors - direct costs	60,173	$ 84,871		**145,044**	136,712
Non-federal sponsors - indirect costs	14,745	5,810		**20,555**	19,540
Total sponsored support	761,146	90,681	0	**851,827**	**776,777**
Gifts for current use (*Note 17*)	88,388	188,526		**276,914**	247,899
Investment income:					
Endowment returns made available for operations (*Note 10*)	217,890	974,140		**1,192,030**	1,320,574
GOA returns made available for operations	148,178			**148,178**	157,089
Other investment income	10,682	10,942		**21,624**	15,844
Total investment income	376,750	985,082	0	**1,361,832**	**1,493,507**
Other income (*Note 18*)	546,600			**546,600**	508,987
Net assets released from restrictions	1,266,650	(1,266,650)		**0**	0
TOTAL OPERATING REVENUE	**3,780,107**	**(2,361)**		**3,777,746**	**3,739,008**
OPERATING EXPENSES:					
Salaries and wages	1,420,023			**1,420,023**	1,363,348
Employee benefits (*Note 13*)	461,010			**461,010**	426,124
Interest (*Note 12*)	298,843			**298,843**	266,021
Depreciation (*Note 9*)	281,027			**281,027**	278,360
Space and occupancy	271,853			**271,853**	278,327
Supplies and equipment	233,655			**233,655**	217,749
Scholarships and other student awards (*Note 15*)	116,510			**116,510**	115,870
Other expenses (*Note 19*)	824,647			**824,647**	794,148
TOTAL OPERATING EXPENSES	**3,907,568**	**0**	**0**	**3,907,568**	**3,739,947**
NET OPERATING DEFICIT	**(127,461)**	**(2,361)**	**0**	**(129,822)**	**(939)**
NON-OPERATING ACTIVITIES:					
Income from GOA investments	20,946			**20,946**	36,607
Realized and unrealized appreciation/(depreciation), net (*Note 3*)	649,799			**649,799**	205,019
GOA returns made available for operations	(148,178)			**(148,178)**	(157,089)
Change in pledge balances (*Note 8*)		36,616		**36,616**	27,743
Change in interests in trusts held by others		6,120		**6,120**	(1,135)
Capital gifts for loan funds and facilities (*Note 17*)		32,135	$ 852	**32,987**	6,733
Change in retirement obligations (*Note 13*)	172,482			**172,482**	(107,714)
Other changes	(51,364)			**(51,364)**	(8,756)
Transfers between GOA and endowment	(14,437)	168,264	(5,024)	**148,803**	155,681
Transfers between GOA and split interest agreements		11,559	2,541	**14,100**	11,489
Non-operating net assets released from restrictions	163,838	(166,347)	2,509	**0**	0
TOTAL NON-OPERATING ACTIVITIES	**793,086**	**88,347**	**878**	**882,311**	**168,578**
GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR	**665,625**	**85,986**	**878**	**752,489**	**167,639**
Endowment net change during the year	868,004	3,312,654	267,042	**4,447,700**	1,426,790
Split interest agreement net change during the year (*Note 11*)		35,719	60,097	**95,816**	218
NET CHANGE DURING THE YEAR, attributable to the University	**1,533,629**	**3,434,359**	**328,017**	**5,296,005**	**1,594,647**
NET ASSETS, attributable to non-controlling interests in the pooled general investment account, change during the year	**235,004**			**235,004**	**38,171**
NET CHANGE DURING THE YEAR	**1,768,633**	**3,434,359**	**328,017**	**5,531,009**	**1,632,818**
Net assets, beginning of year	7,822,711	19,089,405	5,420,152	**32,332,268**	30,699,450
NET ASSETS, end of year	**$ 9,591,344**	**$ 22,523,764**	**$ 5,748,169**	**$ 37,863,277**	**$ 32,332,268**

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

STATEMENTS OF CHANGES IN NET ASSETS OF THE ENDOWMENT

with summarized financial information for the year ended June 30, 2010

In thousands of dollars	Unrestricted	Temporarily restricted	Permanently restricted	For the year ended June 30 2011	For the year ended June 30 2010
Investment return (*Note 3*):					
Income from general investments	$ 29,542	$ 131,664		$ **161,206**	$ 182,402
Realized and unrealized appreciation/(depreciation), net	966,696	4,372,482		**5,339,178**	2,447,868
Total investment return	996,238	4,504,146	0	**5,500,384**	2,630,270
Endowment returns made available for operations	(217,890)	(974,140)	0	**(1,192,030)**	(1,320,574)
Net investment return	778,348	3,530,006	0	**4,308,354**	1,309,696
Gifts for capital (*Note 17*)	3,862	19,440	$ 189,062	**212,364**	240,793
Transfers between endowment and the GOA (*Note 10*)	14,437	(168,264)	5,024	**(148,803)**	(155,681)
Capitalization of split interest agreements (*Note 11*)		2,696	53,304	**56,000**	83,746
Change in pledge balances (*Note 8*)		(6,157)	(43,377)	**(49,534)**	(39,151)
Change in interests in trusts held by others (*Note 10*)		1,061	46,599	**47,660**	22,193
Other changes		21,649	10	**21,659**	(34,806)
Net assets released from restrictions	71,357	(87,777)	16,420	**0**	0
NET CHANGE DURING THE YEAR	**868,004**	**3,312,654**	**267,042**	**4,447,700**	**1,426,790**
Net assets of the endowment, beginning of year	4,727,776	17,896,039	4,941,214	**27,565,029**	26,138,239
NET ASSETS OF THE ENDOWMENT, end of year	**$ 5,595,780**	**$ 21,208,693**	**$ 5,208,256**	**$ 32,012,729**	**$ 27,565,029**

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

STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ **5,531,009**	$ 1,632,818
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:		
Change in net assets, attributable to non-controlling interests in the pooled general investment account	**(235,004)**	(38,171)
Depreciation	**281,027**	278,360
Change in fair value of interest rate exchange agreements	**(330,270)**	52,710
Change in interests in trusts held by others	**(53,779)**	(21,058)
Change in liabilities due under split interest agreements	**65,967**	8,614
Realized and unrealized (gain)/loss on investments, net	**(6,175,282)**	(2,847,547)
Gifts of securities	**(53,717)**	(74,919)
Gifts restricted for capital purposes	**(235,636)**	(213,029)
Loss on redemption of debt	**32,190**	0
Loss on disposal of assets	**35,023**	3,810
Accrued retirement obligations	**(91,308)**	169,077
Changes in operating assets and liabilities:		
Receivables, net	**(17,479)**	1,970
Prepayments and deferred charges	**1,625**	(14,314)
Pledges receivable, net	**13,771**	13,078
Accounts payable	**(38,747)**	(34,181)
Deposits and other liabilities	**(56)**	(237)
NET CASH USED IN OPERATING ACTIVITIES	**(1,270,666)**	**(1,083,019)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to students, faculty, and staff	**(45,987)**	(42,821)
Payments received on student, faculty, and staff loans	**37,470**	35,344
Change in other notes receivable	**9,470**	613
Proceeds from the sales of gifts of securities	**53,717**	74,919
Proceeds from the sales and maturities of investments	**72,153,105**	55,986,287
Purchases of investments	**(69,662,919)**	(53,499,938)
Additions to fixed assets	**(445,936)**	(429,995)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**2,098,920**	**2,124,409**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in overdrafts included in accounts payable	**30,866**	(5,034)
Proceeds from the issuance of debt	**1,065,587**	753,742
Debt repayments	**(1,046,265)**	(449,996)
Gifts restricted for capital purposes	**235,636**	213,029
Change associated with securities lending agreements	**(1,008,795)**	(1,547,540)
Change in government loan advances	**5,591**	(8,144)
NET CASH USED IN FINANCING ACTIVITIES	**(717,380)**	**(1,043,943)**
NET CHANGE IN CASH	**110,874**	**(2,553)**
Cash, beginning of year	**31,629**	**34,182**
CASH, end of year	**$ 142,503**	**$ 31,629**
Supplemental disclosure of cash flow information:		
Accounts payable related to fixed asset additions	$ 62,049	$ 45,443
Cash paid for interest	$ 295,616	$ 274,742

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

1. UNIVERSITY ORGANIZATION

Harvard University (the "University") is a private, not-for-profit institution of higher education with approximately 7,300 undergraduate and 13,900 graduate students. Established in 1636, the University includes the Faculty of Arts and Sciences, the School of Engineering and Applied Sciences, the Division of Continuing Education, nine graduate and professional Schools, the Radcliffe Institute for Advanced Study, a variety of research museums and institutes, and an extensive library system to support the teaching and research activities of the Harvard community. The President and Fellows of Harvard College (the "Corporation"), a governing board of the University, has oversight responsibility for all of the University's financial affairs. The Corporation delegates substantial authority to the Schools and departments for the management of their resources and operations.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

The financial statements include certain prior year summarized comparative information in total, not by net asset classification. This information is not presented in sufficient detail to conform with generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2010, from which the summarized information is derived.

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassification included moving certain costs for items not yet in operation from the operating section of the *Statement of Changes in Net Assets with General Operating Account Detail*, which is consistent with the current year presentation. This reclassification reduced the prior year operating deficit by $3.8 million. Reclassifications also increased the prior year cash used by operations and decreased cash provided by investing by $3.8 million.

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

Net asset classifications

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

UNRESTRICTED net assets are not subject to donor-imposed restrictions. Funds invested in fixed assets and unrestricted endowment funds comprise 83% of the University's unrestricted net assets as of June 30, 2011. In addition, this category includes unrestricted gifts and endowment income balances, University-designated loan funds, and other unrestricted current funds.

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

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

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

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

Net operating surplus/(deficit)

Revenues earned, expenses incurred, and returns made available for operations for the purpose of teaching, conducting research, and the other programs and services of the University are the components of "Net operating deficit" in the *Statements of Changes in Net Assets with General Operating Account Detail*.

Collections

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

Insurance programs

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

Tax-exempt status

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

Use of estimates

The preparation of financial statements in accordance with GAAP in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

New accounting pronouncements

Effective July 1, 2010, the University adopted ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires additional disclosures for significant transfers in and out of Fair Value Levels 1 and 2 and the presentation of gross trading activity within the Level 3 rollforward. Further, ASU 2010-06 clarifies existing disclosures to include fair value measurement disclosures for each class of assets and liabilities as well as to require additional disclosures about inputs and valuation techniques utilized to measure fair value for Levels 2 and 3. The effects of adopting this amendment are addressed in *Notes 3* and *4*.

Effective July 1, 2010, the University adopted ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 requires additional disclosures surrounding credit losses on long term receivables. The effects of adopting this amendment are addressed in *Note 7*.

Effective July 1, 2010, the University retroactively adopted ASU 2010-7 *Not-for-Profit Entities Mergers and Acquisitions*. While the University was not a party to any mergers or acquisitions, the guidance also impacts the financial statement treatment of non-controlling interests in consolidated entities. This guidance requires the University to report non-controlling interests in consolidated entities as a separate component of net assets on the Statement of Financial Position and the change in net assets attributable to the non-controlling interests separately within the *Statements of Changes in Net Assets*. The effects of adopting this amendment are addressed in *Note 3*.

Effective July 1, 2009, the University adopted ASU 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2009-12 clarifies that for investments in entities that permit the investor to redeem the investment directly with (or receive distributions from) the investee at net asset value per share (NAV), at times allowable under the terms of the investee's governing documents, NAV is the most relevant estimate of fair value available that would not require undue cost and effort for the reporting entity. A reporting entity is permitted to estimate the fair value of an investment if the net asset value per share of the investment (or its equivalent) is determined in accordance with the Investment Companies Guide as of the reporting entity's measurement date. The effect of this amendment is addressed in *Note 4*.

Effective July 1, 2009, the University adopted ASC 815-10-50, *Disclosures about Derivative Instruments and Hedging Activities* (ASC 815-10-50). ASC 815-10-50 requires additional disclosures about derivative instruments and hedging activities. This new standard requires that (1) objectives for using derivative instruments be disclosed in terms of underlying risks and accounting designation, (2) the fair values of derivative instruments and their gains and losses be disclosed in tabular format, and (3) information be disclosed about credit-risk contingent features of derivative contracts. The effect of adopting ASC 815-10-50 is further discussed in *Note 5*.

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

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

3. INVESTMENTS

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

A) Investments are presented at fair value based on trade date positions as of June 30, 2011 and 2010. The University endeavors to utilize all relevant and available information in measuring fair value.

B) The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of these instruments. Actual results could differ from these estimates and could have a material impact on the financial statements.

C) Instruments listed or traded on a securities exchange are valued at the last quoted price on the primary exchange where the security is traded. Restrictions that are attached to a security are factored into the valuation of that security, reflective of the estimated impact of those restrictions. Investments in non-exchange traded debt and equity instruments are primarily valued using independent pricing services or by broker/dealers who actively make markets in these securities.

Investments managed by external advisors include investments in private equity, real assets, and certain other investments in limited partnerships and hedge funds classified as domestic equity, high yield, and absolute return and special situations. The majority of these external investments are not readily marketable and are reported at fair value utilizing the most current information provided by the external advisor, subject to assessments that the information is representative of fair value and in consideration of any additional factors deemed pertinent to the fair value measurement. In situations where the information provided by the external advisor is deemed to not be representative of fair value as of the measurement date, management will evaluate specific features of the investment and utilize supplemental fair value information provided by the external advisor along with any relevant market data to measure the investment's fair value.

Fair value of real assets including direct investments in natural resources, timber, and real estate are based on a combination of information obtained from independent appraisals and/or one or more industry standard valuation techniques (e.g., income approach, market approach or cost approach). The income approach is primarily based on the investment's anticipated future income using one of two principal methods, the discounted cash flow method or the capitalization method. Inputs and estimates developed and utilized in the income approach may be subjective and require judgment regarding significant matters such as estimating the amount and timing of future cash flows and the selection of discount and capitalization rates that appropriately reflect market and credit risks. The market approach derives investment value through comparison to recent and relevant market transactions with similar investment characteristics. The cost approach is utilized when the cost or the replacement cost amounts are determined to be the best representation of fair value. This method is typically used for newly purchased or undeveloped assets. These values are determined under the direction of, and subject to review by, the HMC Board of Directors.

Over the counter derivative products classified as due to/from brokers include option, swap, credit default, interest rate, and forward contracts. These types of instruments are primarily valued using industry standard models with externally verifiable inputs or independent broker quotes. Inputs such as prices, spreads, curves, and/or broker quotes are evaluated for source reliability and consistency with industry standards. Counterparty marks obtained and used to determine daily collateral requirements are also used to corroborate input reasonability. Management considers current market conditions including interest rate and credit risks in its evaluation of inputs, pricing methodologies, and models utilized to determine fair values.

D) Dividend income is recognized net of applicable withholding taxes on the ex-dividend date. Non-cash dividends are recorded at the fair value of the securities received. Interest income and expenses are recorded net of applicable withholding taxes on the accrual basis of accounting. The University amortizes bond premiums and accretes bond discounts using the effective yield method and when cash collection is expected.

E) The University utilizes a number of subsidiary entities to support its investment activities. The consolidated financial statements include all assets, liabilities, income, and expenses associated with these entities. All intercompany accounts and transactions have been eliminated during consolidation.

F) The *Balance Sheets* display both the assets and corresponding liabilities generated by securities lending transactions. These transactions are executed to support the investment activities of HMC. The University also separately reports the fair value of assets for which counterparties have the right to pledge or exchange the collateral they have received; assets of the investment portfolio that are unencumbered are included in "Investment portfolio, at fair value" in the *Balance Sheets*. Income and expenses related to securities lending transactions are included in "Income from general investments" in the *Statements of Changes in Net Assets of the Endowment*.

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

The majority of the University's investments are managed by HMC in the General Investment Account (GIA), a pooled fund that consists primarily of endowment assets. Other investments are managed separately from the GIA. These investments consist primarily of cash, short-term investments and fixed income securities (principally government securities) held for the University's working capital needs, interest rate contracts on the University's debt portfolio, and publicly traded securities associated with split interest agreements. All investments are measured at fair value using valuation techniques consistent with ASC 820 and the accounting policies presented herein.

The University's investment holdings as of June 30, 2011 and 2010 are summarized in the following table (in thousands of dollars):

	2011	2010
Investment portfolio, at fair value:		
Pooled general investment account assets[1]	**$ 51,276,581**	$ 38,989,818
Other investments	**2,252,093**	1,869,908
Investment assets[2]	**53,528,674**	40,859,726
Pooled general investment account liabilities	**(13,935,246)**	(6,195,193)
Interest rate exchange agreements	**(400,568)**	(730,838)
Investment liabilities	**(14,335,814)**	(6,926,031)
TOTAL INVESTMENTS	**39,192,860**	33,933,695
Non-controlling interests attributable to the pooled general investment account	**(832,339)**	(597,335)
TOTAL INVESTMENTS, NET	**$ 38,360,521**	**$ 33,336,360**

1 *Includes securities pledged to counterparties of $6,768,202 and $4,158,201 at June 30, 2011 and 2010, respectively.*
2 *Investment holdings include cash and cash equivalents that consist principally of funds that have maturities of 90 days or less. Cash and cash equivalents classified as investments were $1,363,712 and $1,977,814 at June 30, 2011 and 2010, respectively.*

A summary of the University's total return on investments for fiscal 2011 and 2010 is presented below (in thousands of dollars):

	2011	2010
Return on pooled general investment account:		
Realized and change in unrealized gains, net	$ 6,100,258	$ 2,905,448
Net investment income	184,192	208,972
Total return on pooled general investment account[1]	6,284,450	3,114,420
Return on other investments:		
Realized and change in unrealized gains/(losses), net	$ 75,024	$ (57,901)
Net investment income	35,284	41,829
Total return on other investments	110,308	(16,072)
Realized and unrealized gains/(losses) on interest rate exchange agreements, net	7,877	(107,540)
TOTAL RETURN ON INVESTMENTS	**$ 6,402,635**	**$ 2,990,808**

1 *Net of all internal and external management fees and expenses.*

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the global equity, fixed income, real estate, commodities, and private equity markets. The Policy Portfolio provides HMC with a guide as to the actual allocation in the core investment portfolio. The Policy Portfolio is the long-term asset mix determined by the HMC Board of Directors and management team that is considered most likely to meet the University's long-term return goals with the designated level of risk. It serves as the benchmark against which the performance of the pooled general investment account is measured. In addition, the University seeks to enhance the returns of certain asset classes through strategies designed to capture mispricing in specific financial instruments without changing the fundamental risk profile of the core investment account.

The University has various sources of internal liquidity at its disposal, including approximately $5.4 billion in cash and cash equivalents (including reverse repurchase agreements of $4.3 billion) at June 30, 2011 in the General Operating Account and General Investment Account. In addition, management estimates that as of that date, it could liquidate additional unencumbered U.S. government securities in excess of $1.8 billion within one business day to meet any immediate short-term needs of the University.

The pooled general investment account assets and liabilities on page 23 have been disaggregated into asset classes based on the exposure of the investment to various markets. Exposure to each asset class is obtained through investments in individual securities and/or through vehicles advised by external managers.

The pooled general investment assets and liabilities as of June 30, 2011 and 2010 are summarized as follows (in thousands of dollars):

	2011	2010
POOLED GENERAL INVESTMENT ACCOUNT ASSETS:		
Investment assets:		
Domestic common and convertible equity	**$ 3,806,649**	$ 3,046,746
Foreign common and convertible equity	**2,062,218**	1,717,654
Domestic fixed income	**4,982,365**	3,116,566
Foreign fixed income	**3,112,809**	1,382,271
Emerging market equity and debt	**2,411,371**	2,793,060
High yield	**1,634,649**	1,517,709
Absolute return and special situations funds	**5,033,413**	5,286,057
Private equities	**7,262,271**	6,282,736
Real assets[1]	**8,816,619**	6,222,894
Inflation-indexed bonds	**1,303,314**	1,681,589
Due from brokers	**998,001**	531,046
Total investment assets[2]	**41,423,679**	33,578,328
Collateral advanced under reverse repurchase and security borrowing agreements	**7,765,585**	3,800,481
Cash and short-term investments	**941,141**	935,128
Other assets[3]	**1,146,176**	675,881
POOLED GENERAL INVESTMENT ACCOUNT ASSETS	**51,276,581**	**38,989,818**
POOLED GENERAL INVESTMENT ACCOUNT LIABILITIES:		
Investment liabilities:		
Equity and convertible securities sold, not yet purchased	**358,553**	273,779
Fixed income securities sold, not yet purchased	**4,225,876**	1,216,819
Due to brokers	**803,307**	516,061
Total investment liabilities	**5,387,736**	2,006,659
Cash collateral held under security lending agreements	**6,198,268**	3,241,959
Other liabilities[4]	**2,349,242**	946,575
POOLED GENERAL INVESTMENT ACCOUNT LIABILITIES	**13,935,246**	6,195,193
Non-controlling interests attributable to the pooled general investment account	**(832,339)**	(597,335)
POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS[5]	**$ 36,508,996**	**$ 32,197,290**

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

[2] *Includes fair value of securities pledged to counterparties where the counterparty has the right to sell or repledge the securities of $6,768,202 and $4,158,201 as of June 30, 2011 and 2010, respectively.*

[3] *As of June 30, 2011, other assets consisted primarily of receivables for the sale of securities of $748,598, and assets consolidated under ASC 810 of $397,577. As of June 30, 2010, other assets consisted primarily of receivables for the sale of securities of $408,566, and assets consolidated under ASC 810 of $267,312.*

[4] *As of June 30, 2011, other liabilities consisted primarily of payables for the purchase of securities of $1,433,911, and other liabilities consolidated under ASC 810 of $844,431. As of June 30, 2010, other liabilities consisted primarily of payables for the purchase of securities of $448,851, and other liabilities consolidated under ASC 810 of $433,431.*

[5] *The cost of the total pooled general investment account net assets was $31,318,377 and $30,822,563 as of June 30, 2011 and 2010, respectively.*

As of June 30, 2011 and 2010, the GIA was comprised of the following pools (in thousands of dollars):

	2011	2010
POOLED GENERAL INVESTMENT ACCOUNT		
General Operating Account	$ 4,202,095	$ 4,502,335
Endowment[1]	31,153,645	26,735,087
Split interest agreements	796,563	684,700
Other internally designated funds	356,693	275,168
TOTAL POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS	**$ 36,508,996**	**$ 32,197,290**

[1] *Includes only the portion of the endowment invested in the GIA and excludes pledges, interests in trusts held by others, other non-GIA investments, and GIA income.*

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

The table above includes the total fair value of securities pledged to counterparties where the counterparty has the right, by contract or practice, to sell or repledge the securities. The total fair value of securities pledged that cannot be sold or repledged was $172.6 million and $288.7 million as of June 30, 2011 and 2010, respectively. The fair value of collateral accepted by the University was $7,759.8 million and $4,159.3 million as of June 30, 2011 and 2010, respectively. The portion of this collateral that was sold or repledged was $178.9 million and $234.2 million as of June 30, 2011 and 2010, respectively.

The University consolidates assets and liabilities held in partnerships or entities controlled by the University. Due to consolidation, real asset investments increased by $1,279.1 million and $763.4 million as of June 30, 2011 and 2010, respectively. Other assets, consisting of cash, receivables, and fixed assets, increased by $397.6 million and $267.3 million as of June 30, 2011 and 2010, respectively. Other liabilities, consisting of accruals, payables, and debt, increased by $844.4 million and $433.4 million as of June 30, 2011 and 2010, respectively. The portion of this increase directly related to consolidated debt was $599.9 million and $252.7 million as of June 30, 2011 and 2010, respectively. Based on the structure, duration and nature of the debt being consolidated, the amounts approximate the fair value of the debt as of each reporting period. This debt is specific to real assets held by the investment portfolio, and does not extend to others assets held by the University.

Additionally, the University has consolidated certain non-controlling interests relating to its investments in real assets under ASU 2010-7. These non-controlling interests represent the portion of the real assets not controlled by the University, but are required to be presented on the University's balance sheet under generally accepted accounting principles. These interests were $832.3 million and $597.3 million as of June 30, 2011 and 2010, respectively. The increase year over year relates to $44.4 million of new non-controlling interests acquired during the year ended June 30, 2011, and appreciation on existing non-controlling interests of $190.6 million for the year then ended.

4. FAIR VALUE OF INVESTMENT ASSETS AND LIABILITIES

The University's investments have been categorized based upon the fair value hierarchy in accordance with ASC 820. The ASC 820 fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value of investment assets and liabilities into three levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are:

LEVEL 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

LEVEL 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

LEVEL 3 Prices or valuations that require inputs that are significant to the fair value measurement, unobservable and/or require the University to develop its own assumptions.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels are recognized at the beginning of year.

Investments that trade in inactive markets, but are valued based on quoted market prices, broker/dealers quotations, or independent pricing services supported by observable inputs are classified within Level 2. These include non-exchange traded equity and fixed income securities, securities subject to restriction, and certain over the counter derivatives. In evaluating the level at which the University's externally managed investments have been classified within this hierarchy, management has assessed factors including, but not limited to price transparency, the ability to redeem these investments at net asset value ("NAV") at the measurement date, and the existence or absence of certain restrictions at the measurement date. Investments in externally managed funds generally have limited redemption options for investors and, subsequent to final closing, may or may not permit subscriptions by new or existing investors. These entities may also have the ability to impose gates, lockups, and other restrictions on an investor's ability to readily redeem out of their investment interest in the fund. At June 30, 2011 and 2010, certain externally managed funds where the University has the ability and the right to redeem interests within the next twelve months have been classified as Level 2 investments.

The University's Level 3 investments consist almost entirely of investments managed by external advisors, and direct investments in natural resources, timber, and real estate. Externally managed investments are generally valued using the most current information received from the external advisor, subject to assessments that the value is representative of fair value and in consideration of any additional factors deemed pertinent to the valuations. Direct investments are primarily valued using a combination of independent appraisals, when available, and discounted cash flow analysis and/or other industry standard methodologies. Level 3 investments also include certain over the counter derivative products primarily valued using independent broker quotes. Valuation policies for these types of investments are further discussed in *Note 3*.

The following is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement as of June 30, 2011 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:				
Cash and short-term investments	$ 1,363,712			**$ 1,363,712**
Domestic common and convertible equity	298,522	$ 1,749,239	$ 1,948,111	**3,995,872**
Foreign common and convertible equity	158,333	1,092,772	886,485	**2,137,590**
Domestic fixed income	5,064,584	1,969	12,405	**5,078,958**
Foreign fixed income	3,138,090			**3,138,090**
Emerging market equity and debt	1,757,074	365,313	288,984	**2,411,371**
High yield	20,366	776,190	858,459	**1,655,015**
Absolute return and special situations funds		2,733,664	2,299,749	**5,033,413**
Private equities		45,020	7,312,137	**7,357,157**
Real assets	73,736	77,889	8,680,598	**8,832,223**
Inflation-indexed bonds	1,323,144			**1,323,144**
Due from brokers	21,813	912,681	63,507	**998,001**
Other investments	28,856	1,744	3,677	**34,277**
TOTAL INVESTMENT PORTFOLIO ASSETS*	**13,248,230**	**7,756,481**	**22,354,112**	**43,358,823**
Interests in trusts held by others			351,408	**351,408**
TOTAL INVESTMENT ASSETS	**$ 13,248,230**	**$ 7,756,481**	**$ 22,705,520**	**$ 43,710,231**

* *Excludes investment assets not subject to fair value of $10,169,851.*

	Level 1	Level 2	Level 3	Total
INVESTMENT LIABILITIES:				
Equity and convertible securities sold, not yet purchased	358,553			**358,553**
Fixed income securities sold, not yet purchased	4,225,876			**4,225,876**
Due to brokers	34,513	$ 1,160,179	$ 9,183	**1,203,875**
TOTAL INVESTMENT LIABILITIES**	**4,618,942**	**1,160,179**	**9,183**	**5,788,304**
Liabilities due under split interest agreements		771,568		**771,568**
TOTAL LIABILITIES	**$ 4,618,942**	**$ 1,931,747**	**$ 9,183**	**$ 6,559,872**

** *Includes fair value of interest rate exchange agreements of $400,568 and excludes investment liabilities not subject to fair value of $8,547,510.*

The following is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement as of June 30, 2010 (in thousands of dollars):

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

* *Excludes investment assets not subject to fair value of $4,657,910.*

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

** *Includes fair value of interest rate exchange agreements of $730,838 and excludes investment liabilities not subject to fair value of $4,188,534.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2011 (in thousands of dollars):

	Beginning balance as of July 1, 2010	Realized gains/ (losses)	Change in unrealized gains/(losses)*	Purchases	Sales	Transfer into Level 3	Transfer out of Level 3**	Ending balance as of June 30, 2011
INVESTMENT ASSETS:								
Domestic common and convertible equity	$ 1,977,249	$ 111,921	$ 902,554	$ 12,507	$ (292,430)		$ (763,690)	**$ 1,948,111**
Foreign common and convertible equity	711,184	(103,157)	555,610		(59,742)		(217,410)	**886,485**
Domestic fixed income	24,613	7,734	(4,024)	25,322	(48,449)	$ 7,209		**12,405**
Foreign fixed income		(1,095)	1,095					
Emerging market equity and debt	418,433	42,924	53,188	88,054	(677,190)	364,961	(1,386)	**288,984**
High yield	869,213	(6,474)	118,179	839,377	(270,074)		(691,762)	**858,459**
Absolute return and special situations funds	2,679,639	268,961	277,213	658,737	(1,293,301)		(291,500)	**2,299,749**
Private equities	6,358,302	575,938	949,492	1,100,628	(1,792,791)	165,640	(45,072)	**7,312,137**
Real assets	6,145,956	156,546	1,274,343	1,893,867	(771,784)		(18,330)	**8,680,598**
Due from brokers	45,973	3,659	325	17,138	(3,554)		(34)	**63,507**
Other investments	3,062	2	613					**3,677**
TOTAL INVESTMENT PORTFOLIO ASSETS	**19,233,624**	**1,056,959**	**4,128,588**	**4,635,630**	**(5,209,315)**	**537,810**	**(2,029,184)**	**23,354,112**
Interests in trusts held by others	297,629		53,779					**351,408**
TOTAL INVESTMENT ASSETS	**$ 19,531,253**	**$ 1,056,959**	**$ 4,182,367**	**$ 4,635,630**	**$ (5,209,315)**	**$ 537,810**	**$ (2,029,184)**	**$ 22,705,520**
INVESTMENT LIABILITIES:								
Equity and convertible securities sold, not yet purchased	$ 209	$ 202	$ (135)	$ (276)				
Fixed income securities sold, not yet purchased	620	(2,104)	548	936				
Due to brokers	15,901	898	(151)	(1,626)	$ (5,839)			**$ 9,183**
TOTAL INVESTMENT LIABILITIES	**$ 16,730**	**$ (1,004)**	**$ 262**	**$ (966)**	**$ (5,839)**			**$ 9,183**

* *Total change in unrealized gains/(losses) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2011 is $2,766,382 and is reflected in "Realized and unrealized appreciation/(depreciation), net" in the Statements of Changes in Net Assets.*

** *Changes in classification for certain externally managed funds from Level 3 to Level 2 are included in the above table as transfers out of Level 3.*

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

	Beginning balance as of July 1, 2009	Realized gains/ (losses)	Change in unrealized gains/(losses)*	Purchases	Sales	Transfer into Level 3	Transfer out of Level 3**	Ending balance as of June 30, 2010
INVESTMENT ASSETS:								
Domestic common and convertible equity	$ 3,030,537	$ 44,955	$ 330,842	$ 88,269	$ (70,893)	$ 31	$ (1,446,492)	**$ 1,977,249**
Foreign common and convertible equity	1,162,592	14,325	252,873	19,966	(326,092)	462,882	(875,362)	**711,184**
Domestic fixed income	88,837	(29,870)	43,177	43,198	(116,104)	6,664	(11,289)	**24,613**
Emerging market equity and debt	1,069,217	(69,309)	191,212	23,613	(87,508)		(708,792)	**418,433**
High yield	1,167,909	(91,587)	282,625	508,892	(897,869)		(100,757)	**869,213**
Absolute return and special situations funds	5,146,719	(39,387)	723,496	210,195	(711,156)		(2,650,228)	**2,679,639**
Private equities	5,587,397	127,711	609,101	1,051,956	(999,086)	47,009	(65,786)	**6,358,302**
Real assets	5,670,179	(185,899)	(20,814)	1,169,793	(493,530)	6,227		**6,145,956**
Inflation-indexed bonds	39,741	18,870	(13,301)		(45,310)			
Due from brokers	345,516	156,424	(219,274)	22,953	(237,695)		(21,951)	**45,973**
Other investments	6,871	126	(3,935)					**3,062**
TOTAL INVESTMENT PORTFOLIO ASSETS	**23,315,515**	**(53,641)**	**2,176,002**	**3,138,835**	**(3,985,243)**	**522,813**	**(5,880,657)**	**19,233,624**
Interests in trusts held by others	276,571		21,217		(159)			**297,629**
TOTAL INVESTMENT ASSETS	**$ 23,592,086**	**$ (53,641)**	**$ 2,197,219**	**$ 3,138,835**	**$ (3,985,402)**	**$ 522,813**	**$ (5,880,657)**	**$ 19,531,253**
INVESTMENT LIABILITIES:								
Equity and convertible securities sold, not yet purchased	$ 114	$ (7)	$ 102					**$ 209**
Fixed income securities sold, not yet purchased	3,675	(412)	1,238	$ (1,408)	$ 92	$ 1	$ (2,566)	**620**
Due to brokers	287,804	273,167	(242,837)	(22,224)	(287,246)	7,237		**15,901**
TOTAL INVESTMENT LIABILITIES	**$ 291,593**	**$ 272,748**	**$ (241,497)**	**$ (23,632)**	**$ (287,154)**	**$ 7,238**	**$ (2,566)**	**$ 16,730**

* *Total change in unrealized gains/(losses) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2010 was $773,091 and is reflected in "Realized and unrealized appreciation/(depreciation), net" in the Statements of Changes in Net Assets.*

** *Changes in classification for certain externally managed funds from Level 3 to Level 2 are included in the above table as transfers out of Level 3.*

The University has entered into agreements with private equity and real estate partnerships and external investment managers, which include commitments to make periodic cash disbursements in future periods. The expected amounts of these disbursements as of June 30, 2011 and 2010 are broken out below (in thousands of dollars):

	As of June 30, 2011		
	Fair value*	Remaining unfunded commitments	Estimated remaining life**
Private equities	$ 6,428,104	$ 2,888,016	5–10
Real assets	2,356,477	2,050,947	5–10
Other externally managed funds***	1,155,327	490,249	2–8
TOTAL	**$ 9,939,908**	**$ 5,429,212**	

	As of June 30, 2010		
	Fair value*	Remaining unfunded commitments	Estimated remaining life**
Private equities	$ 5,487,532	$ 3,229,044	5–10
Real assets	2,128,300	2,877,591	5–10
Other externally managed funds***	1,145,183	533,306	2–8
TOTAL	**$ 8,761,015**	**$ 6,639,941**	

* *Represents the fair value of the funded portion of investments with remaining unfunded commitments for each asset class.*

** *The estimated remaining lives of these funds, expressed in years, are forward-looking projections based on management's estimates and could vary significantly depending on the investment decisions of external managers, changes in the University's investment portfolio, and other circumstances.*

*** *Investments in externally managed funds primarily include exposures to Absolute return, Domestic, Foreign, and Emerging equities, and High yield asset classes.*

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

5. DERIVATIVES

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

The market risk of a strategy is influenced by the relationship between the financial instruments with off-balance sheet risk and the offsetting positions recorded in the *Balance Sheets*. The University manages exposure to market risk through the use of industry standard analytical tools that measure the market exposure of each position within a strategy. The strategies are monitored daily, and positions are frequently adjusted in response to changes in the financial markets.

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

The following tables present the gross fair values and the net profit/(loss) from derivatives by primary risk exposure for the years ended June 30, 2011 and 2010 (in thousands of dollars):

	As of June 30, 2011		For the year ended June 30, 2011
Primary risk exposure	Gross derivative assets	Gross derivative liabilities	Net profit/(loss)
Equity instruments:			
Equity futures		$ 1,090	$ (400)
Equity options	$ 37,715	7,894	1,016
Equity exchange agreements	75,846	71,649	675,299
TOTAL EQUITY INSTRUMENTS	**113,561**	**80,633**	**675,915**
Fixed income instruments:			
Fixed income futures	28,014	17,401	7,376
Fixed income options	6,259	5,033	(3,678)
Interest rate exchange agreements[1]	662,684	929,106	34,733
Interest rate caps and floors	65,781	67,942	32,692
TOTAL FIXED INCOME INSTRUMENTS	**762,738**	**1,019,482**	**71,123**
Commodity instruments:			
Commodity futures	9	9	
Commodity exchange agreements	6,314	2,204	231,309
TOTAL COMMODITY INSTRUMENTS	**6,323**	**2,213**	**231,309**
Currency instruments:			
Currency forwards	1,663,481	1,686,469	(31,707)
Currency options	52,753	32,822	(6,694)
Currency exchange agreements	21,852	10,949	11,666
TOTAL CURRENCY INSTRUMENTS	**1,738,086**	**1,730,240**	**(26,735)**
CREDIT INSTRUMENTS	**48,751**	**42,226**	**(24,329)**
GROSS VALUE OF DERIVATIVE CONTRACTS	**2,669,459**	**2,874,794**	**927,283**
Counterparty netting[2]	(1,662,597)	(1,662,058)	
INCLUDED IN INVESTMENT PORTFOLIO, AT FAIR VALUE	**$ 1,006,862**	**$ 1,212,736**	

[1] *Includes $8,861 and $409,429 of gross derivative assets and liabilities, respectively, and a net profit/(loss) of $7,877, related to interest rate exchange agreements on the University's debt portfolio, further discussed in Note 12.*

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

Primary risk exposure	As of June 30, 2010 Gross derivative assets	Gross derivative liabilities	For the year ended June 30, 2010 Net profit/(loss)
Equity instruments:			
Equity futures			$ 47,857
Equity options	$ 2,103	$ 489	493
Equity exchange agreements	42,303	141,108	49,553
TOTAL EQUITY INSTRUMENTS	**44,406**	**141,597**	**97,903**
Fixed income instruments:			
Fixed income futures	3,731	10,745	3,001
Fixed income options	5,556	2,573	(910)
Interest rate exchange agreements[1]	350,967	1,040,180	(108,539)
Interest rate caps and floors	154,952	140,177	(8,105)
TOTAL FIXED INCOME INSTRUMENTS	**515,206**	**1,193,675**	**(114,553)**
COMMODITY INTSTRUMENTS	**1,354**	**1,011**	**(38,523)**
Currency instruments:			
Currency forwards	1,191,258	1,190,086	(2,971)
Currency options	63,698	37,770	1,721
Currency exchange agreements	16,707	6,076	7,972
TOTAL CURRENCY INSTRUMENTS	**1,271,663**	**1,233,932**	**6,722**
CREDIT INSTRUMENTS	**79,622**	**65,510**	**(165,634)**
GROSS VALUE OF DERIVATIVE CONTRACTS	**1,912,251**	**2,635,725**	**$ (214,085)**
Counterparty netting[2]	(1,299,951)	(1,307,572)	
INCLUDED IN INVESTMENT PORTFOLIO, AT FAIR VALUE	**$ 612,300**	**$ 1,328,153**	

[1] *Includes $81,254 and $812,092 of gross derivative assets and liabilities, respectively, and a net profit/(loss) of $(107,540), related to interest rate exchange agreements on the University's debt portfolio, further discussed in Note 12.*

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

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

Options

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

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

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

During fiscal 2011, the University transacted approximately 500 equity and fixed income option trades with an average transaction size of approximately 3,500 contracts. Additionally, the University transacted approximately 275 currency option contracts with average USD equivalent notional amounts of approximately $25.0 million per contract.

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

Swap contracts

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

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

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

Credit default contracts

The University enters into credit derivatives to simulate long and short bond exposure that is either unavailable or considered to be less attractively priced in the bond market, or to hedge exposure obtained in the bond market.

The University also uses these derivatives to reduce risk where it has exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default. The reference obligation of the derivative can be a single issuer, a "basket" of issuers, or an index. During fiscal 2011, the University transacted approximately 600 credit default contracts with average notional amounts of approximately $11.5 million. During fiscal 2010, the University transacted approximately 1,000 credit default contracts with average notional amounts of approximately $10.0 million.

In instances where the University has purchased credit protection on an underlying reference obligation, the University is obligated to pay the seller of the credit protection a periodic stream of payments over the term of the contract in return for a contingent payment upon the occurrence of a credit event with respect to the underlying reference obligation. The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. The amount paid for purchased protection is typically a small percentage of the notional amount. In instances where the University has sold credit protection on an underlying reference obligation, the University receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, and in some instances up to ten years. In the case where the University sold credit protection, if a credit event occurs, the University may cash settle the contract or pay the purchaser of credit protection the full notional value of the contract in exchange for the reference obligation.

As of June 30, 2011, the University's purchased and written credit derivatives had gross notional amounts of $2.0 billion and $0.2 billion, respectively, for total net purchased protection of $1.8 billion in notional value. As of June 30, 2010, the University's purchased and written credit derivatives had gross notional amounts of $5.6 billion and $0.4 billion, respectively, for total net purchased protection of $5.2 billion in notional value.

The table below summarizes certain information regarding credit protection purchased and written as of June 30, 2011 and 2010 (in thousands of dollars):

As of June 30, 2011

	Purchased protection		Written protection notional amount					
			Years to maturity					
Credit rating on underlying	Purchased notional amount*	Purchased fair value	< 5 years	5-10 years	Total written credit protection	Offsetting purchased credit protection**	Net written credit protection	Net written credit protection fair value
A- to AAA	$ 584,750	$ 194	$ 14,498	$ 26,500	$ 40,998	$ 17,998	$ 23,000	$ 166
BBB- to BBB+	1,210,115	(271)		28,500	28,500		28,500	(326)
Non-investment grade	175,368	32,905	38,581	59,386	97,967	24,250	73,717	(29,735)
TOTAL	**$ 1,970,233**	**$ 32,828**	**$ 53,079**	**$ 114,386**	**$ 167,465**	**$ 42,248**	**$ 125,217**	**$ (29,895)**

As of June 30, 2010

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

* *Amounts shown are net of purchased credit protection that directly offsets written credit protection, as discussed in the note (**) below.*

** *Offsetting purchased credit derivatives represent the notional amount of purchased credit derivatives to the extent they hedge written credit derivatives with identical underlyings.*

Credit ratings on the underlying reference obligation, together with the period of expiration, are indicators of payment/performance risk. For example, the seller of credit protection is least likely to pay or otherwise be required to perform where the credit ratings are AAA and the period of expiration is "< 5 years". The likelihood of payment or performance is generally greater as the credit ratings fall and period of expiration increases.

Interest rate contracts

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

During fiscal 2011, the University transacted approximately 3,500 interest rate swap and cap and floor contracts with average notional amounts of approximately $400.0 million. During fiscal 2010, the University transacted approximately 2,050 interest rate swap and cap and floor contracts with average notional amounts of approximately $225.0 million.

Total return swaps

The University enters into total return swaps to manage its exposure to market fluctuations in various asset classes. Total return swaps involve commitments to pay interest in exchange for a market linked return, both based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from or make a payment to the counterparty, respectively. During fiscal 2011, the University transacted approximately 90 commodity swap contracts, 1,300 equity swap contracts, and 250 currency swap contracts with average notional amounts of approximately $30.0 million,

$2.5 million, and $13.0 million, respectively. During fiscal 2010, the University transacted approximately 100 commodity swap contracts, 1,000 equity swap contracts, and 200 currency swap contracts with average notional amounts of approximately $15.0 million, $2.0 million, and $25.0 million, respectively.

Forward currency contracts

The University enters into forward currency contracts in connection with settling planned purchases or sales of securities, for investment purposes, or to hedge the currency exposure associated with some or all of the University's portfolio securities. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price on a future date. The value of a forward currency contract fluctuates with changes in forward currency exchange rates. Forward currency contracts are marked-to-market daily and the change in value is recorded by the University as an unrealized gain or loss. Realized gains or losses equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed are recorded upon delivery or receipt of the currency or, if a forward currency contract is offset by entering into another forward currency contract with the same broker, upon settlement of the net gain or loss. During fiscal 2011, the University transacted approximately 5,000 forward currency contracts with average USD equivalent notional amounts of approximately $2.3 million. During fiscal 2010, the University transacted approximately 4,400 forward currency contracts with average USD equivalent notional amounts of approximately $2.5 million.

Futures contracts

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

Gains and losses are realized when the contracts expire or are closed. Futures contracts are marked-to-market daily based on settlement prices established by the board of trade or exchange on which they are traded, and an appropriate payable or receivable for the change in value is recorded by the University. During fiscal 2011, the University transacted approximately 5,000 futures trades with an average transaction size of approximately 100 contracts. During fiscal 2010, the University transacted approximately 1,000 futures trades with an average transaction size of approximately 200 contracts.

Counterparty credit exposure

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

Some of the financial instruments entered into by the University contain credit-risk-related contingency features that allow the parties to the agreement to demand immediate payment for outstanding contracts and/or collateral. If material credit-risk-related contingency features were triggered on June 30, 2011 and 2010, the additional collateral due to counterparties for derivative contracts would have been $19.5 million and $20.6 million, respectively.

6. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of $13.1 million and $6.6 million as of June 30, 2011 and 2010, respectively, were as follows (in thousands of dollars):

	2011	2010
Federal sponsored support	$ **63,557**	$ 43,518
Investment income	**60,728**	66,248
Publications	**31,113**	32,199
Executive education	**22,978**	20,564
Non-federal sponsored support	**13,108**	12,954
Tuition and fees	**12,670**	13,094
Gift receipts	**7,402**	13,108
Other	**48,397**	40,789
TOTAL RECEIVABLES, NET	**$ 259,953**	**$ 242,474**

7. NOTES RECEIVABLE

Notes receivable are recorded initially at face value plus accrued interest which approximates fair value. Notes receivable, and related allowance for doubtful accounts, were as follows (in thousands of dollars):

	2011			2010		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student loans:						
Government revolving	$ 80,664	$ 2,509	**$ 78,155**	$ 81,784	$ 2,489	**$ 79,295**
Institutional	82,244	2,800	**79,444**	79,115	2,668	**76,447**
Federally insured	1,434	0	**1,434**	1,681	0	**1,681**
Total student loans	164,342	5,309	**159,033**	162,580	5,157	**157,423**
Faculty and staff loans	185,788	422	**185,366**	178,881	422	**178,459**
Other loans	22,932	3,975	**18,957**	31,515	3,088	**28,427**
TOTAL	**$ 373,062**	**$ 9,706**	**$ 363,356**	**$ 372,976**	**$ 8,667**	**$ 364,309**

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan Program and certain other programs. These advances totaled $67.0 million and $61.4 million as of June 30, 2011 and 2010, respectively, and are classified as liabilities in the *Balance Sheets*. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

In addition to administering institutional loan programs, the University participates in various federal loan programs. Federally insured loans are generally repaid over a ten-year period and earn interest at an adjustable rate that approximates the 90-day U.S. Treasury Bill rate plus 3.3%. Principal and interest payments on these loans are insured by the American Student Assistance Corporation and are reinsured by the federal government.

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

The University assesses the adequacy of the allowance for doubtful accounts by evaluating the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, and, where applicable, the existence of any guarantees or indemnifications. In addition to these factors, the University reviews the aging of the loans receivable and the default rate in comparison to prior years. The allowance is adjusted based on these reviews. The University considers the allowance at June 30, 2011 and 2010 to be reasonable and adequate to absorb potential credit losses inherent in the loan portfolio.

8. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are initially recorded at fair value (pledge net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. Discounts of $41.8 million and $56.5 million for the years ended June 30, 2011 and 2010, respectively, were calculated using discount factors based on the appropriate U.S. Treasury Note rates for pledges received prior to the adoption of ASC 820, and using the University's taxable unsecured borrowing rate for pledges received since fiscal 2009.

Pledges receivable included in the financial statements as of June 30, 2011 and 2010 are expected to be realized as follows (in thousands of dollars):

	2011	2010
Within one year	**$ 134,080**	**$ 135,665**
Between one and five years	**536,317**	**542,658**
More than five years	**193,902**	**204,998**
Less: discount and allowance for uncollectible pledges	**(105,858)**	**(111,109)**
TOTAL PLEDGES RECEIVABLE, NET	**$ 758,441**	**$ 772,212**

Pledges receivable as of June 30, 2011 and 2010 have been designated for the following purposes (in thousands of dollars):

	2011	2010
General Operating Account balances:		
Gifts for current use	**$ 330,138**	$ 273,578
Non-federal sponsored grants	**95,768**	96,515
Loan funds and facilities	**47,886**	67,936
Total General Operating Account balances	**473,792**	438,029
Endowment	**284,649**	334,183
TOTAL PLEDGES RECEIVABLE, NET	**$ 758,441**	**$ 772,212**

Because of uncertainties with regard to realizability and valuation, bequest intentions and other conditional promises are only recognized as assets if and when the specified conditions are met. Non-bequest conditional pledges totaled $30.4 million and $40.3 million as of June 30, 2011 and 2010, respectively.

9. FIXED ASSETS

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

The major categories of fixed assets as of June 30, 2011 and 2010 are summarized as follows (in thousands of dollars):

	2011	2010	Estimated useful life (in years)
Research facilities	**$ 1,990,895**	$ 1,936,396	*
Classroom and office facilities	**1,324,352**	1,301,983	35
Housing facilities	**1,150,756**	1,108,432	35
Other facilities	**519,968**	531,103	35
Service facilities	**561,422**	484,110	35
Libraries	**408,666**	408,508	35
Museums and assembly facilities	**310,440**	317,193	35
Athletic facilities	**165,221**	161,046	35
Land	**695,570**	609,872	N/A
Construction in progress	**807,095**	740,699	N/A
Equipment	**864,903**	804,315	**
SUBTOTAL AT COST	**8,799,288**	8,403,657	
Less: accumulated depreciation	**(3,152,211)**	(2,903,072)	
FIXED ASSETS, NET	**$ 5,647,077**	**$ 5,500,585**	

* *Estimated useful lives of components range from 10 to 45 years.*
** *Estimated useful lives of equipment range from 3 to 8 years.*

Certain University facilities are subject to restrictions as to use, structural modifications, and ownership transfer. Included in the fixed asset balances are restricted facilities with a net book value of $222.3 million and $183.2 million as of June 30, 2011 and 2010, respectively.

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

Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

The University has asset retirement obligations of $61.1 million and $65.9 million, which are included in the “Deposits and other liabilities” in the *Balance Sheets* as of June 30, 2011 and 2010, respectively.

10. ENDOWMENT

The University's endowment consists of approximately 11,800 separate funds established over many years for a wide variety of purposes. Endowment fund balances, including funds functioning as endowment, are classified and reported as unrestricted, temporarily restricted, or permanently restricted net assets in accordance with donor specifications and state law. Net unrealized losses on permanently restricted endowment funds are classified as a reduction to unrestricted net assets until such time as the fair value equals or exceeds historic dollar value. Unrestricted net assets were reduced by $13.1 million and $83.7 million for such losses in fiscal 2011 and 2010, respectively. Although funds functioning as endowment are not subject to donor restrictions, decisions to spend their principal require the approval of the Corporation. All but a small fraction of the endowment is invested in the GIA (*Note 3*).

The University is also the beneficiary of certain irrevocable trusts held and administered by others. The estimated fair values of trust assets, which include the present values of expected future cash flows from outside trusts and the fair value of the underlying assets of perpetual trusts, are recognized as assets and increases in net assets when the required trust documentation is provided to the University. The fair values of these trusts are provided by the external trustees and are adjusted annually by the University. These are included as Level 3 investments in the fair value hierarchy table in *Note 4*.

The endowment consisted of the following as of June 30, 2011 and 2010 (in thousands of dollars):

	2011				2010
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Endowment funds	$ (13,126)	$ 18,490,322	$ 4,654,006	$ **23,131,202**	$ 19,819,359
Funds functioning as endowment	5,608,906	2,679,545		**8,288,451**	7,150,720
Pledge balances		26,791	257,858	**284,649**	334,183
Interests in trusts held by others		12,035	296,392	**308,427**	260,767
TOTAL ENDOWMENT	**$ 5,595,780**	**$ 21,208,693**	**$ 5,208,256**	**$ 32,012,729**	**$ 27,565,029**

The University's endowment distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and generate a predictable stream of available income. Each fall, the Corporation approves the endowment distribution for the following fiscal year. The endowment distribution is based on presumptive guidance from a formula that is intended to provide budgetary stability by smoothing the impact of annual investment gains and losses. The formula's inputs reflect expectations about long-term returns and inflation rates. For fiscal 2011, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 4.5% of the fair value of the endowment invested in the GIA as of the beginning of the fiscal year. The total endowment distribution made available for operations was $1.2 billion and $1.3 billion in fiscal 2011 and 2010, respectively.

Each year the Corporation also approves certain decapitalizations from the endowment to support strategic, mission-critical activities or objectives that are typically one-time or time-limited. These decapitalizations totaled $234.7 million and $237.4 million in fiscal 2011 and 2010, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 5.3% and 6.1% in fiscal 2011 and 2010, respectively.

11. SPLIT INTEREST AGREEMENTS

Under split interest agreements, donors enter into trust arrangements with the University in which the University receives benefits that are shared with other beneficiaries and institutions. Split interest agreement (SIA) investment assets are invested primarily in the GIA and publicly traded securities, a small segment is managed by an external advisor, and all are recorded at fair value as discussed in *Notes 3* and *4*. The publicly traded securities are included as Level 1 and externally managed investments are included as Level 3 investments in the fair value hierarchy table in *Note 4*. Associated liabilities are recorded at the present value of estimated future payments due to beneficiaries and other institutions. These liabilities were calculated using discount factors based on the appropriate U.S. Treasury Bill rates for gifts received prior to the adoption of ASC 820, and using the University's current taxable unsecured borrowing rate for gifts received beginning in fiscal 2009.

The changes in split interest agreement net assets for fiscal 2011 and 2010 were as follows (in thousands of dollars):

	2011			2010
	Temporarily restricted	Permanently restricted	Total	Total
Investment return:				
Investment income	$ 3,852	$ 11,818	**$ 15,670**	$ 15,916
Realized and unrealized appreciation/(depreciation), net	47,475	145,673	**193,148**	86,642
Total investment return	51,327	157,491	**208,818**	102,558
Gifts for capital (*Note 17*)*	15,967	8,924	**24,891**	13,260
Payments to annuitants	(14,484)	(44,441)	**(58,925)**	(57,749)
Capitalization to the endowment	(2,696)	(53,304)	**(56,000)**	(83,746)
Transfers between SIA and the GOA	(11,559)	(2,541)	**(14,100)**	(11,489)
Change in liabilities and other adjustments	(2,836)	(6,032)	**(8,868)**	37,384
NET CHANGE DURING THE YEAR	**35,719**	**60,097**	**95,816**	**218**
Total split interest agreement net assets, beginning of year	38,254	383,719	**421,973**	421,755
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 73,973**	**$ 443,816**	**$ 517,789**	**$ 421,973**

* *Shown at net present value. The undiscounted value of these gifts was $41,807 and $32,707 for the years ended June 30, 2011 and 2010, respectively.*

Split interest agreement net assets as of June 30, 2011 and 2010 consisted of the following (in thousands of dollars):

	2011	2010
Split interest agreement investments (*Note 3*):		
Charitable remainder trusts	**$ 842,092**	$ 745,099
Charitable lead trusts	**117,115**	91,144
Charitable gift annuities	**225,335**	195,831
Pooled income funds	**104,815**	95,500
Total split interest agreement investments	**1,289,357**	1,127,574
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	**(656,138)**	(605,476)
Amounts due to other institutions	**(115,430)**	(100,125)
Total liabilities due under split interest agreements	**(771,568)**	(705,601)
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, end of year	**$ 517,789**	**$ 421,973**

12. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2011 and 2010 were as follows (in thousands of dollars):

	Fiscal year of issue	Years to final maturity*	One-year yield**	Outstanding principal 2011***	2010****
Tax-exempt bonds and notes payable:					
Variable-rate bonds and notes payable:					
Series L - weekly	1990	N/A	0.2%		$ 71,140
Series R - daily	2000–2006	21	0.2	$ **131,200**	131,200
Series Y - weekly	2000	24	0.2	**117,905**	117,905
Series BB - weekly	2001	N/A	0.2		196,700
Series HH - weekly	2004	N/A	0.2		92,235
Commercial paper	2011	< 1	0.3	**319,681**	407,081
Total variable-rate bonds and notes payable			0.2	**568,786**	1,016,261
Fixed-rate bonds:					
Series N	1992	9	6.3	**79,109**	79,008
Series Z	2001	2	5.6	**19,748**	28,858
Series DD	2002	24	5.0	**135,071**	135,038
Series FF	2003	26	5.1	**185,312**	221,831
Series 2005A	2005	25	4.8	**93,213**	93,376
Series 2005B	2006	21	4.8	**104,512**	104,700
Series 2005C	2006	24	4.9	**129,622**	129,776
Series 2008B	2008	27	4.8	**216,094**	216,358
Series 2009A	2009	25	5.4	**985,106**	986,006
Series 2010A	2010	23	4.4	**526,987**	530,395
Series 2010B	2011	29	4.6	**661,672**	
Total fixed-rate bonds			5.0	**3,136,446**	2,525,346
Total tax-exempt bonds and notes payable			**4.0**	**3,705,232**	**3,541,607**
Taxable bonds and notes payable:					
Series GG2 - weekly	2005	2	0.2	**24,355**	31,810
Series 2006A	2006	26	6.3	**401,437**	401,416
Series 2008A	2008	27	4.9	**387,760**	387,715
Series 2008C	2008	7	5.3	**125,205**	125,205
Series 2008D	2009	28	5.9	**1,196,376**	1,495,716
Series 2010C	2011	29	4.9	**298,038**	
Commercial paper	2011	< 1	0.2	**44,045**	214,759
Total taxable bonds and notes payable			**5.4**	**2,477,216**	**2,656,621**
Other notes payable	Various	Various	Various	**153,261**	85,969
TOTAL BONDS AND NOTES PAYABLE			**4.6%**	**$ 6,335,709**	**$ 6,284,197**

* *The weighted average maturity of the portfolio on June 30, 2011 was 18.5 years.*

** *Exclusive of interest rate exchange agreements. Inclusive of these agreements, the overall portfolio rate was 5.2%.*

*** *Series N, DD, FF, 2006A, 2008A, 2008D, 2009A and 2010C principal are net of $0.9 million, $0.8 million, $1.2 million, $0.6 million, $0.2 million, $3.6 million, $14.9 million and $2.0 million of discounts, respectively. Series Z, 2005A, 2005B, 2005C, 2008B, 2010A and 2010B principal include premiums of $0.01 million, $4.1 million, $4.0 million, $3.7 million, $7.2 million, $47.0 million and $60.6 million, respectively.*

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

Interest expense related to bonds and notes payable was $296.4 million and $264.9 million for fiscal 2011 and 2010, respectively. The interest expense in the *Statement of Changes in Net Assets with General Operating Account Detail* includes additional components related to capital leases.

Excluding maturity of commercial paper and unamortized discounts and premiums, scheduled principal payments are (in thousands of dollars):

Fiscal year	Principal payments
2012	$ 19,643
2013	192,258
2014	274,324
2015	38,603
2016	38,601
Thereafter	5,306,077
TOTAL PRINCIPAL PAYMENTS	**$ 5,869,506**

In fiscal 2011, the University issued $601.1 million of tax-exempt fixed-rate Series 2010B bonds. The series was comprised of a $133.6 million issue that will mature in 2040, and various other issues totaling $467.5 million that will mature beginning in 2020 and ending in 2039. Proceeds from Series 2010B were used to fund the full redemption of Series L, Series BB and Series HH, to refinance a portion of Series FF, to finance capital projects under construction, and to finance capital projects and acquisitions initially funded by the University's commercial paper program.

In fiscal 2011, the University issued $300.0 million of taxable fixed-rate Series 2010C bonds that will mature in 2040. Proceeds from Series 2010C were used to finance capital projects initially funded by the University's commercial paper program, and for other general University purposes.

In fiscal 2011, the University's AAA/Aaa credit ratings were affirmed with Standard & Poor's and Moody's Investors Service, respectively.

In fiscal 2011, the University redeemed $300.0 million of Series 2008D, scheduled to mature in 2014, by exercising the bond's make-whole call option.

In fiscal 2011, the University entered into a $2.0 billion unsecured, revolving credit facility with a syndicate of banks, of which $1.0 billion expires in February 2012 and $1.0 billion expires in February 2014. There was no outstanding balance on the credit facility at June 30, 2011.

In fiscal 2011, the University obtained reauthorization of its tax-exempt commercial paper program.

As of June 30, 2011, the University had $273.5 million of variable-rate bonds outstanding (excluding commercial paper) with either a daily or weekly interest rate reset, as noted in the bonds and notes payable table on page 37. In the event that the University receives notice of any optional tender on its variable-rate bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered.

In fiscal 2010, the University issued $480.0 million of tax-exempt fixed-rate Series 2010A Bonds. Proceeds from Series 2010A were used to refinance a portion of Series Z and Series FF bonds, to finance capital projects under construction, and to finance capital projects initially funded by the University's commercial paper program. Finally, in fiscal 2010, the University obtained reauthorization of its tax-exempt commercial paper program.

The estimated fair value of the University's outstanding bonds and notes payable, including accrued interest, was $6,854.6 million and $6,936.9 million as of June 30, 2011 and 2010, respectively.

Subsequent to year end, in August 2011, the University redeemed Series DD in full by exercising the bond's call option, and funded the redemption with proceeds from the issuance of commercial paper.

Interest rate exchange agreements

The University has entered into various interest rate exchange agreements in order to manage the interest cost and risk associated with its outstanding debt and to hedge issuance of future debt. The interest rate exchange agreements were not entered into for trading or speculative purposes. Each of these agreements is collateralized, as described in Note 5, and thereby carries liquidity risk to the extent the relevant agreements have negative mark-to-market valuations (pursuant to methodologies described below).

In fiscal 2011, the University entered into interest rate exchange agreements with a notional value of $125.5 million, under which the University receives a fixed rate and pays a variable rate. These new interest rate exchange agreements, or 'offsetting' agreements, were intended to reduce the risk of losses in value (with associated collateral posting requirements) within the portfolio of interest rate exchange agreements. Also in fiscal 2011, the University exercised the option to cancel an existing interest rate exchange agreement at no cost, and replaced it by entering a new $117.0 million interest rate exchange agreement, under which the University pays a fixed rate and receives a variable rate.

The fair value of interest rate exchange agreements is the estimated amount that the University would have received or (paid), including accrued interest, to terminate the agreements on the dates of the *Balance Sheets*. The notional amount and fair value of interest rate exchange agreements were $2,039.4 million and $(400.6) million, respectively, as of June 30, 2011 and $3,823.4 million and $(730.8) million, respectively, as of June 30, 2010. In fiscal 2011, the University terminated interest rate exchange agreements with a notional value of $1,937.6 million resulting in a cash payment of $277.6 million. The fair value of the agreements outstanding on June 30, 2011 is included in the "Securities lending and other liabilities associated with the investment portfolio" line in the *Balance Sheets*.

The loss realized from the monthly settling of interest rate exchange agreements was $44.8 million and $54.8 million for fiscal 2011 and 2010, respectively. All unrealized and realized gains and losses from interest rate exchange agreements are included in the "Realized and unrealized appreciation/(depreciation), net" line in the *Statements of Changes in Net Assets with General Operating Account Detail.*

NOTIONAL AMOUNT OF INTEREST RATE EXCHANGE AGREEMENTS
In thousands of dollars

Beginning balance, July 1, 2010	$ 3,823,408
Offsetting interest rate exchange agreements	125,500
Other new interest rate exchange agreements	117,000
Interest rate exchange agreements terminated	(1,937,607)
Exercise of cancellation option at no cost	(76,638)
Scheduled amortizations	(12,308)
ENDING BALANCE, JUNE 30, 2011	**$ 2,039,355**

13. EMPLOYEE BENEFITS

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

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

Pension benefits

All eligible faculty members, staff and hourly employees are covered by retirement programs that include a defined benefit component, a defined contribution component, or a combination of the two.

In accordance with ERISA requirements, the University has established a trust to hold plan assets for its defined benefit pension plans. The fair value of the trust's assets was $746.9 million and $666.0 million as of June 30, 2011 and 2010, respectively. In addition, the University had internally designated and invested $38.7 million and $32.0 million as of June 30, 2011 and 2010, respectively, for its defined benefit pension plans. The University recorded expenses for its defined contribution plans of $104.5 million and $100.6 million for fiscal 2011 and 2010, respectively. Gross benefits paid for pensions were $41.3 million and $63.1 million as of June 30, 2011 and 2010, respectively. The 2010 gross benefits paid include costs associated with a voluntary early retirement program offered to plan participants during fiscal 2009.

Postretirement health benefits

The University provides postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2011, the University had internally designated and invested $311.9 million to fund the postretirement health benefit accrued liability of $782.2 million. As of June 30, 2010, the University had internally designated and invested $238.1 million to fund an accrued liability of $812.3 million.

The following table sets forth the pension and postretirement plans' funded status that is reported in the *Balance Sheets* as of June 30, 2011 and 2010 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2011	2010	2011	2010
Change in projected benefit obligation:				
Projected benefit obligation, beginning of year	**$ 762,862**	$ 723,381	**$ 812,336**	$ 697,483
Service cost	**14,491**	12,979	**38,091**	30,936
Interest cost	**44,951**	43,815	**50,323**	44,803
Plan participants' contributions			**2,876**	2,659
Federal subsidy on benefits paid				1,376
Gross benefits paid	**(41,345)**	(63,089)	**(22,087)**	(21,362)
Actuarial (gain)/loss	**1,608**	45,776	**(99,320)**	56,441
PROJECTED BENEFIT OBLIGATION, end of year	**782,567**	**762,862**	**782,219**	**812,336**
Change in plan assets:				
Fair value of plan assets, beginning of year	**666,005**	680,748		
Actual return on plan assets	**122,241**	48,346		
Gross benefits paid	**(41,345)**	(63,089)		
FAIR VALUE OF PLAN ASSETS, end of year	**746,901**	666,005	**0**	0
FUNDED/(UNFUNDED) STATUS	**$ (35,666)**	**$ (96,857)**	**$ (782,219)**	**$ (812,336)**

The accumulated benefit obligation associated with pension benefits was $659.9 million and $636.7 million at June 30, 2011 and 2010, respectively. When comparing the accumulated benefit obligation with the fair value of the plan assets, under the Pension Protection Act of 2006 and for ERISA purposes, the plan remains overfunded.

Net periodic benefit (income)/cost

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

	Pension benefits		Postretirement health benefits	
	2011	2010	2011	2010
Components of net periodic benefit (income)/cost:				
Service cost	$ **14,491**	$ 12,979	$ **38,091**	$ 30,936
Interest cost	**44,951**	43,815	**50,323**	44,803
Expected return on plan assets	**(52,231)**	(55,656)		
Amortization of:				
Actuarial (gain)/loss	**(975)**	(2,792)	**2,895**	1,826
Prior service (credit)/cost	**(4,633)**	(4,694)	**1,411**	1,411
Transition (asset)/obligation			**6,062**	6,062
Total net periodic benefit (income)/cost recognized in operating activity	**1,603**	(6,348)	**98,782**	**85,038**
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year actuarial (gain)/loss	**(68,402)**	53,086	**(99,320)**	56,441
Amortization of:				
Transition asset/(obligation)			**(6,062)**	(6,062)
Prior service credit/(cost)	**4,633**	4,694	**(1,411)**	(1,411)
Actuarial gain/(loss)	**975**	2,792	**(2,895)**	(1,826)
Total other amounts recognized in non-operating activity*	**(62,794)**	60,572	**(109,688)**	47,142
Total recognized in *Statements of Changes in Net Assets with General Operating Account Detail*	**$ (61,191)**	**$ 54,224**	**$ (10,906)**	**$ 132,180**

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

	2011	2010	2011	2010
Net actuarial (gain)/loss	$ **(6,313)**	$ 61,114	$ **(18,926)**	$ 83,289
Prior service (credit)/cost	**(1,129)**	(5,762)	**741**	2,152
Transition (asset)/obligation			**12,125**	18,187
Cumulative amounts recognized in unrestricted net assets*	**$ (7,442)**	**$ 55,352**	**$ (6,060)**	**$ 103,628**

* *These amounts totaling $(172.5) million in fiscal 2011 and $107.7 million in fiscal 2010 include gains and losses and other changes in the actuarially determined benefit obligations arising in the current period but that have not yet been reflected within net periodic benefit (income)/cost and are included in the "Change in retirement obligations" line in the Statements of Changes in Net Assets with General Operating Account Detail.*

The estimated net actuarial gain and prior service credit for the defined benefit plan that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2012 are $0.3 million and ($1.2) million, respectively. The estimated net actuarial loss, prior service cost and transition obligation for the postretirement health benefit that will be amortized from unrestricted net assets into net periodic benefit (income)/cost in fiscal 2012 are ($4.2) million, $0.7 million and $6.1 million, respectively.

Assumptions and health care cost trend rates used in determining the year end obligation as well as the net periodic benefit (income)/cost of the pension and postretirement health plans are summarized as follows for fiscal 2011 and 2010:

	Pension benefits		Postretirement health benefits	
	2011	2010	2011	2010
Weighted-average assumptions used to determine benefit obligation as of June 30:				
Discount rate	**5.60%**	6.00%	**5.80%**	6.00%
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%
Health care cost trend rate:				
– Initial rate	**N/A**	N/A	**8.50%**	11.00%
– Rate in Year 2	**N/A**	N/A	**8.00%**	8.50%
– Ultimate rate	**N/A**	N/A	**5.00%**	5.00%
– Years to ultimate rate	**N/A**	N/A	**7**	8
Weighted-average assumptions used to determine net periodic benefit (income)/cost:				
Discount rate	**6.00%**	6.25%	**6.00%**	6.25%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	**N/A**	N/A
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%
Health care cost trend rate:				
– Initial rate	**N/A**	N/A	**11.00%**	8.00%
– Ultimate rate	**N/A**	N/A	**5.00%**	5.00%
– Years to ultimate rate	**N/A**	N/A	**8**	6

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate would affect 2011 as shown in the following table (in thousands of dollars):

	1% point increase	1% point decrease
Effect on 2011 postretirement health benefits service and interest cost	28,126	(18,675)
Effect on postretirement health benefits obligation as of June 30, 2011	208,617	(137,635)

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

Plan assets

The actual asset allocation of the investment portfolio for the pension plan for fiscal 2011 and 2010, along with target allocations for fiscal 2012, is as follows:

	2012 target	2011 actual	2010 actual
Asset allocation by category for pension plan:			
Equity securities	32.0%	48.2%	50.2%
Fixed income securities	38.0	19.8	13.5
Real estate	5.0	5.9	5.7
Commodities	2.0	1.8	2.2
Natural resources			0.7
Absolute return	18.0	22.5	20.4
Cash	5.0	1.8	7.3
TOTAL OF ASSET ALLOCATION CATEGORIES	**100.0%**	**100.0%**	**100.0%**

The University's investment strategy for the pension portfolio is to manage the assets across a broad and diversified range of investment categories, both domestic and international. The objective is to achieve a risk-adjusted return that is in line with the long-term obligations that the University has to the pension plan beneficiaries. During fiscal 2012, the University intends to increase its asset allocation to fixed income securities to more closely align its pension assets to its pension obligations. The investment program is also managed to comply with all ERISA regulations.

The following is a summary of the levels within the fair value hierarchy for the pension plan assets subject to the fair value measurement as of June 30, 2011 (in thousands of dollars):

	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:				
Absolute return and special situations funds		$ 77,766	$ 87,999	$ **165,765**
Cash and short-term investments	$ 22,814			**22,814**
Domestic common and convertible equity	19,969	106,123		**126,092**
Domestic fixed income	100,997			**100,997**
Emerging market equity and debt	66,471			**66,471**
Foreign common and convertible equity	50,644	53,229		**103,873**
High yield		4,544		**4,544**
Inflation-indexed bonds	38,737			**38,737**
Private equities			72,717	**72,717**
Real assets			43,456	**43,456**
TOTAL INVESTMENT ASSETS*	**$ 299,632**	**$ 241,662**	**$ 204,172**	**$ 745,466**

* *Excludes investment assets not subject to fair value of $1,435.*

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

	Level 1	Level 2	Level 3	Total
INVESTMENT ASSETS:				
Absolute return and special situations funds		$ 61,246	$ 80,446	$ **141,692**
Cash and short-term investments	$ 45,879			**45,879**
Domestic common and convertible equity	23,159	91,858		**115,017**
Domestic fixed income	46,487	10		**46,497**
Emerging market equity and debt	76,461			**76,461**
Foreign common and convertible equity	38,503	40,752	1,547	**80,802**
High yield		4,273	57	**4,330**
Inflation-indexed bonds	38,127			**38,127**
Private equities			76,337	**76,337**
Real assets			39,250	**39,250**
TOTAL INVESTMENT ASSETS*	**$ 268,616**	**$ 198,139**	**$ 197,637**	**$ 664,392**

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

The following is a rollforward of Level 3 investments for the year ended June 30, 2011 (in thousands of dollars):

	Beginning balance as of July 1, 2010	Realized gains/(losses)	Change in unrealized gains/(losses)	Sales	Purchases	Net tansfers in/(out) of Level 3	Ending balance as of June 30, 2011
INVESTMENT ASSETS:							
Absolute return and special situations funds	$ 80,446	$ 4,395	$ 5,101	$ (26,300)	$ 24,357		$ **87,999**
Domestic fixed income		(14)	7	(3)		$ 10	**0**
Foreign common and convertible equity	1,547	(2,520)	2,594	(1,621)			**0**
High yield	57	58	(57)	(58)			**0**
Private equities	76,337	8,298	3,312	(23,547)	8,317		**72,717**
Real assets	39,250	2,258	4,745	(4,257)	1,460		**43,456**
TOTAL INVESTMENT ASSETS	**$ 197,637**	**$ 12,475**	**$ 15,702**	**$ (55,786)**	**$ 34,134**	**$ 10**	**$ 204,172**

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

	Beginning balance as of July 1, 2009	Realized gains/(losses)	Change in unrealized gains/(losses)	Sales	Purchases	Net tansfers in/(out) of Level 3	Ending balance as of June 30, 2010
INVESTMENT ASSETS:							
Absolute return and special situations funds	$ 152,833	$ (1,263)	$ 11,765	$ (12,476)	$ 33	$ (70,446)	$ **80,446**
Domestic fixed income	79,724					(79,724)	
Foreign common and convertible equity	2,151	(2,329)	3,256	(1,531)			**1,547**
High yield	1,584		(1,527)				**57**
Private equities	74,763	1,608	8,083	(17,221)	9,104		**76,337**
Real assets	58,463	4,974	(26,949)	(5,816)	8,578		**39,250**
TOTAL INVESTMENT ASSETS	**$ 369,518**	**$ 2,990**	**$ (5,372)**	**$ (37,044)**	**$ 17,715**	**$ (150,170)**	**$ 197,637**

Expected future benefit payments

There are no expected employer contributions for fiscal 2012 to funded pension or postretirement health benefit plans. The following table summarizes expected benefit payments and subsidies for pension and other postretirement benefits for the University (in thousands of dollars):

	Expected benefit payments			
Fiscal year	Pension	Postretirement health	Expected Medicare Part D subsidies	Net Postretirement health
2012	$ 49,820	$ 24,998	$ 2,608	$ 22,390
2013	45,122	27,439	2,904	24,535
2014	46,432	29,857	3,188	26,669
2015	47,570	32,391	3,494	28,897
2016	48,863	34,959	3,833	31,126
Thereafter	263,190	220,141	25,176	195,238

14. GENERAL OPERATING ACCOUNT

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

The GOA consisted of the following as of June 30, 2011 and 2010 (in thousands of dollars):

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
General Operating Account	$ 3,163,225	$ 1,241,098	$ 96,097	**$ 4,500,420**	$ 3,747,931

The temporarily restricted net assets consist primarily of unexpended income, gifts, and pledges. The permanently restricted net assets are loan funds.

15. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2011 and 2010 is summarized as follows (in thousands of dollars):

	2011	2010
Scholarships and other student awards:		
Scholarships applied to student income	**$ 335,036**	$ 318,911
Scholarships and other student awards paid directly to students	**116,510**	115,870
Total scholarships and other student awards	**451,546**	**434,781**
Student employment	**66,690**	65,347
Student loans	**22,059**	20,173
Agency financial aid*	**16,779**	13,485
TOTAL STUDENT FINANCIAL AID	**$ 557,074**	**$ 533,786**

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

16. SPONSORED SUPPORT

Total expenditures funded by U.S. government sponsors or by institutions that subcontract federally sponsored projects to the University were $686.2 million and $620.5 million in fiscal 2011 and 2010, respectively. The University's principal source of federal sponsored funds is the Department of Health and Human Services. The University also has many non-federal sources of sponsored awards and grants, including corporations, foundations, state and local governments, foreign governments, and research institutes.

Sponsored grants and contracts normally provide for the recovery of direct and indirect costs. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government and other sponsors. Predetermined federal indirect cost rates have been established for the University Area and the Medical School (including the School of Dental Medicine) through fiscal year 2015. The School of Public Health has predetermined indirect cost rates through fiscal 2013. Funds received for federally sponsored activity are subject to audit.

17. GIFTS

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

Gifts received for the years ended June 30, 2011 and 2010 are summarized as follows (in thousands of dollars):

	2011	2010
Gifts for current use	**$ 276,914**	$ 247,899
Non-federal sponsored grants	**91,980**	88,364
Gifts for capital:		
Endowment funds	**212,364**	240,793
Split interest agreements*	**24,891**	13,260
Loan funds and facilities	**32,987**	6,733
Total gifts for capital	**270,242**	260,786
TOTAL GIFTS	**$ 639,136**	**$ 597,049**

* *Shown at net present value. The gross value of these gifts was $41,807 and $32,707 for the years ended June 30, 2011 and 2010, respectively.*

18. OTHER INCOME

The major components of other income for the years ended June 30, 2011 and 2010 were as follows (in thousands of dollars):

	2011	2010
Rental and parking	**$ 136,102**	$ 128,378
Royalties from patents, copyrights, and trademarks	**107,067**	91,300
Publications	**78,079**	80,566
Services income	**62,010**	55,527
Health and clinic fees	**49,878**	48,700
Sales income	**49,103**	46,023
Interest income	**10,768**	9,409
Other student income	**6,711**	7,083
Other	**46,882**	42,001
TOTAL OTHER INCOME	**$ 546,600**	**$ 508,987**

19. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2011 and 2010 were as follows (in thousands of dollars):

	2011	2010
Services purchased	**$ 381,536**	$ 369,640
Subcontract expenses under sponsored projects	**170,297**	153,103
Travel	**68,020**	63,724
Publishing	**44,371**	44,325
Taxes and fees	**30,286**	25,764
Postage	**22,177**	21,782
Advertising	**18,876**	18,782
Insurance	**18,409**	15,665
Telephone	**12,307**	11,886
Other	**58,368**	69,477
TOTAL OTHER EXPENSES	**$ 824,647**	**$ 794,148**

20. FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

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

Operating expenses by functional classification for the years ended June 30, 2011 and 2010 were as follows (in thousands of dollars):

	2011	2010
Instruction	$ **1,016,221**	$ 989,969
Research	**734,526**	664,508
Institutional support	**673,424**	632,889
Academic support	**529,948**	533,764
Auxiliary services	**455,075**	433,981
Libraries	**231,629**	224,595
Student services	**150,235**	144,371
Scholarships and other student awards	**116,510**	115,870
TOTAL OPERATING EXPENSES	**$ 3,907,568**	**$ 3,739,947**

21. COMMITMENTS AND CONTINGENCIES

Lease commitments

The University is the lessee of equipment and space under operating (rental) and capital leases. Rent expense related to leases was $45.0 million and $35.9 million in fiscal 2011 and 2010, respectively. Future minimum payments under these operating and capital leases are as follows (in thousands of dollars):

	Operating	Capital
2012	$ 48,981	$ 7,050
2013	44,067	7,055
2014	38,392	7,112
2015	34,549	7,382
2016	28,350	7,677
Thereafter	103,527	183,611
TOTAL FUTURE MINIMUM PAYMENTS	**$ 297,866**	**$ 219,887**

Fixed asset-related commitments

The University has various commitments for capital projects involving construction and renovation of certain facilities, real estate acquisitions, and equipment purchases, for which the outstanding commitments as of June 30, 2011 totaled approximately $339.8 million.

Environmental remediation

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

Electricity purchase commitments

The University has entered into Power Purchase Agreements (PPAs) with a series of energy providers to purchase electricity for various quantities and time periods. As of June 30, 2011, future obligations under the PPAs are as follows (in thousands of dollars):

2012	$ 21,634
2013	18,092
2014	13,780
2015	9,846
2016	5,477
Thereafter	33,659
TOTAL ELECTRICITY FUTURE OBLIGATIONS	**$ 102,488**

General

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

The University has evaluated subsequent events through October 28, 2011, the date the financial statements were available for issuance.

PRESIDENT AND FELLOWS OF HARVARD COLLEGE

BOARD OF OVERSEERS

OFFICERS