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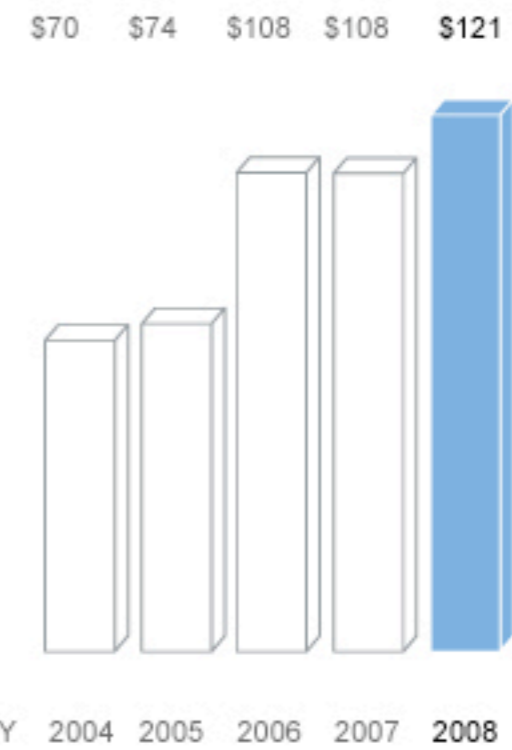
The School's balance sheet remains modestly leveraged. The University functions as a banker for HBS and the other Harvard schools, allowing HBS to borrow on a triple-A-rated tax-exempt basis. In fiscal 2008, the School's building debt increased by \$13 million to \$121 million, primarily reflecting construction-in-progress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

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

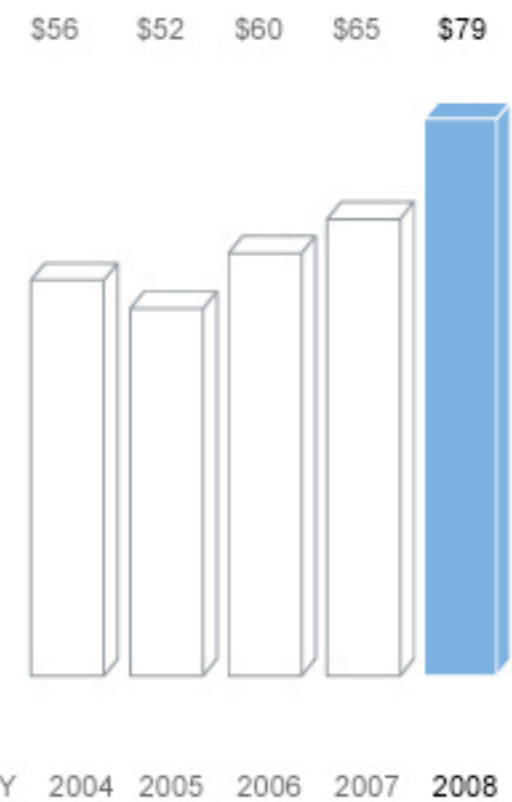
#### UNRESTRICTED RESERVES BALANCE

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

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



Building Debt Outstanding  
(Dollars in millions)



Unrestricted Reserves  
(Dollars in millions)

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