OTHER EXPENSES
Other expenses rose by 14.3 percent to $377 million in fiscal 2008, from $311 million last year. Increased international travel for the faculty, broader MBA recruiting outreach, direct costs for new executive programs, and expenses related to the School’s Centennial activities were the major reasons for the growth in other expenses this year.

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

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

In 2002, the launch of The Campaign for Harvard Business School coincided with the start of an economic recovery, producing strong growth in revenue from gifts, HBP, and Executive Education. The School’s operating cash flow nearly doubled year-over-year in fiscal 2004 to $159 million, and reached a plateau of $244 million and $237 million in fiscal 2005 and 2006, respectively. Cash from operations increased to $309 million in fiscal 2007, primarily as a result of the larger endowment distribution and income from unrestricted current use gifts.

In fiscal 2008, cash from operations declined by $2 million from the previous year to $287 million, reflecting a mix of factors. Growth in the endowment distribution and strong revenue from Executive Education were offset by slower growth in HBP, a decline in unrestricted current use giving, and higher operating expenses. The increase in expenses was largely attributable to growth in the size of the faculty, variable costs in HBP, and a one-time expensing of the historic vacation liability.

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

After remaining essentially level for the prior three years at $14 million, use of endowment principal and appreciation grew to $41 million in fiscal 2008. The increase reflected the School’s $265 million share of a University-wide strategic decapitalization from the endowment, drawn from appreciation resulting from the Harvard endowment’s strong investment returns in recent years.

CASH AVAILABLE FOR CAPITAL ACTIVITIES
Fiscal 2008 marked the second consecutive year in which the School’s cash flow exceeded net capital expenses. Although capital investment in the HBS campus doubled from fiscal 2007 to $40 million, cash before capital activities grew to $66 million, driven by the increase in use of endowment principal and appreciation related to the strategic decapitalization.