



FY 15

FINANCIAL

REPORT

DEAN OF THE FACULTY

Nitin Nohria

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Frances X. Frei

Senior Associate Dean for Faculty Planning & Recruiting

Paul M. Healy

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Senior Associate Dean for Strategy & Innovation

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Senior Associate Dean for Harvard Business Publishing & Executive Education

Felix Oberholzer-Gee

Senior Associate Dean for the MBA Program

Lynn S. Paine

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William A. Sahlman

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Luis M. Viceira

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Executive Dean for Administration

Jean M. Cunningham

Associate Dean for Faculty & Academic Affairs

Nancy DellaRocco

Executive Director, Executive Education

Stephen Gallagher

Chief Information Officer

Gabriel Handel

Assistant Dean for Administrative & Educational Affairs

Brian Kenny

Chief Marketing & Communications Officer

Jana Kierstead

Executive Director, MBA Program

John F. Korn

Executive Director, Doctoral Programs

Ellen Mahoney

*Chief Human Resources Officer;
Executive Director, HBS Initiatives*

Richard P. Melnick

Chief Financial Officer

Patrick Mullane

Executive Director, HBX

Andrew O'Brien

Chief of Operations

Valerie Porciello

Executive Director, Division of Research & Faculty Development

Debra Wallace

Executive Director, Knowledge & Library Services

David A. Wan

*President & Chief Executive Officer,
Harvard Business Publishing*



FROM THE DEAN

Dear alumni and friends,

I am delighted to share with you the Harvard Business School Financial Report for FY2015.

We feel a special responsibility at HBS to ensure that we are careful stewards of the School's resources, and that we manage the School in a way that exemplifies the type of high-performing organization our students and alumni themselves aspire to lead. During my visits with friends of the School, and particularly during The Harvard Business School Campaign—a time when we are asking for support to ensure the future strength of HBS—I often am asked how we measure our efficiency and effectiveness. This Financial Report is intended to provide a window into our operations.

During FY2015, and building on the priorities that have guided our strategy for five years, we continued to deepen and extend a range of exciting initiatives. In the MBA Program, we launched a new capstone program, Bridges, to help graduating students integrate their learning over two years and

prepare for re-entry into the workforce. We broadened the reach of CORE, HBX's online primer on the fundamentals of business, to a more truly international audience of learners. Here on campus, we made significant progress on the Ruth Mulan Chu Chao Center in anticipation of its opening in June 2016, and on the plans for the Klarman Center, a new space on which we'll break ground in April 2016, further transforming the residential learning experience that distinguishes HBS.

At the same time, we sought ways to further enhance the work we do day in and day out. We began an effort to ensure we are developing the next generation of outstanding case writers among our faculty. We looked to increase alumni engagement, traveling with Campaign events to more than a dozen cities around the globe. Additionally, we launched a new version of hbr.org, the online portal to *Harvard Business Review* that connects managers with leading ideas in management practice.

Our aspirations, past and future, reflect our commitment to reimagining and realizing our mission of educating leaders who make a difference in the world.

NITIN NOHRIA
DEAN OF THE FACULTY

FIVE-YEAR SUMMARY

FOR THE FISCAL YEAR ENDED JUNE 30,

Financial Data (in millions)	2015	2014	2013	2012	2011
Revenues	\$ 707	\$ 676	\$ 612	\$ 546	\$ 509
Expenses	660	645	571	504	456
Cash from Operations	47	31	41	42	53
Capital Investments	81	92	80	51	34
Building Debt Outstanding	78	85	91	99	103
Unrestricted Reserves	125	99	83	119	79
Endowment	3,323	3,224	2,880	2,665	2,779
Total Assets	\$ 4,587	\$ 4,409	\$ 3,831	\$ 3,490	\$ 3,528
MBA Program					
Applications	9,686	9,543	9,315	8,963	9,134
Percent Admitted	11%	12%	12%	13%	12%
Yield	91%	89%	89%	89%	89%
Enrollment	1,865	1,859	1,838	1,805	1,860
Tuition	\$ 58,875	\$ 56,175	\$ 53,500	\$ 51,200	\$ 48,600
Average Fellowship Aid per Student	\$ 32,919	\$ 31,710	\$ 30,725	\$ 29,843	\$ 26,745
Doctoral Programs					
Applications	749	792	816	868	830
Percent Admitted	4%	4%	5%	4%	5%
Yield	53%	76%	71%	68%	68%
Enrollment	147	150	143	137	132
Executive Education					
Enrollment	10,614	9,993	9,992	9,891	9,939
HBX					
CORE Participants	3,511	622	—	—	—
Courses, Corporate Customers	21	1	—	—	—
Collaborating Colleges / Universities	13	1	—	—	—
Faculty					
Faculty Positions (full-time equivalents)	231	234	227	232	217
Teaching Materials	544	617	684	640	691
Research Articles	183	193	181	184	150
Books	13	18	17	23	18
Staff					
Staff Positions (full-time equivalents)	1,541	1,447	1,335	1,198	1,138
Publishing					
Cases Sold	13,223,000	11,992,000	11,448,000	10,603,000	9,764,000
Harvard ManageMentor® Active Users	1,700,000	900,000	—	—	—
HBR.org Average Monthly Visitors	4,629,400	3,656,000	3,348,300	2,864,500	1,469,900



FROM THE

CHIEF FINANCIAL OFFICER

The School's economic model proved its strength in fiscal 2015. Harvard Business Publishing (HBP) and Executive Education contended with a unique set of short-term revenue challenges, and Harvard Business School (HBS) as a whole continued to experience pressures on fixed costs. Nonetheless, total revenue exceeded our forecast, cash flow increased from fiscal 2014, and HBS ended the year with a larger unrestricted reserves balance than initially anticipated.

Looking ahead, our outlook for fiscal 2016 is buoyed by the School's strong results this past year, but tempered by a fact that informs our financial planning. The School has been consistently successful in fueling innovation in teaching and knowledge creation and in enhancing the residential learning experience. This, in turn, has enlarged the scale and scope of activity at HBS, expanding the operational footprint and increasing fixed costs, making it more challenging to generate a healthy operating surplus each year.

Our revenue/cost challenge comes in two flavors. First, activities that enrich the HBS student experience typically lead to incremental expenses that do not have an associated revenue stream. For instance, FIELD is now core to MBA education at HBS, and field-method learning adds about \$10 million of incremental annual expenses—only a small portion of which is recovered by MBA tuition and fees. In addition, the School is committed to consistently increasing student financial assistance from year

to year, independent of income received from endowed fellowship funds.

Second, the School continually makes strategic investments with an eye toward fulfilling the HBS mission over the long term. For example, HBP spends today to build the technology platforms necessary to deliver competitive products in the future. The School is investing in HBX—the digital learning initiative—to develop that emerging educational platform. In Executive Education, ensuring that HBS continues to deliver a transformational experience requires not just outstanding faculty, but also steady investments in facilities and information technology (I.T.).

Although the objective for investments such as these is to generate revenue and operating income, this cycle can take years to complete. As a result, our financial plan for the second half of the decade anticipates greater pressure on the School's operating margins as the fixed costs associated with its strategic initiatives continue to increase.

One of our financial planning goals is for HBS to serve as a living model of a well-run organization—consistent with the skills, tools, and frameworks taught across the School's educational programs each year. Achieving this goal starts with transparency. To that end, the School's fiscal 2015 financial results are reported in detail in the Supplemental Financial Information section that begins on page 10.

The balance of this letter is aimed at reporting on the School's financial performance in the context of the dynamics outlined above. I will start by reviewing the fiscal 2015 operational and financial highlights as they pertain to the HBS economic model. The letter will continue with some thoughts on our strategic financial challenges. It will conclude with our financial forecast for 2016, as well as our longer-term outlook.

FISCAL 2015 IN REVIEW

Turning first to HBP, we anticipated that fiscal 2015 would be a year of slower top-line growth. This forecast reflected a new

approach to revenue recognition for Harvard ManageMentor, the Corporate Learning Group's flagship product, because of its shift from packaged software to a subscription service model. Despite this accounting transition, HBP's revenues grew more than 4 percent in fiscal 2015, exceeding our forecast for the sixth consecutive year. HBP outperformed our expectations for expense management as well, and the group's margin contribution was higher than initially planned.

Executive Education faced residence and dining capacity constraints in fiscal 2015. The group successfully managed these challenges and delivered stronger-than-anticipated 5 percent revenue growth, year-over-year. This also was a successful year for Executive Education from a cost perspective. Overall operating expenses were

than \$850 million in new gifts and pledges by the fiscal year-end. About 50 percent of this giving consisted of unrestricted and restricted current use gifts intended to support near-term priorities. The balance was intended to sustain the School's core operations over the long term by creating new endowment accounts, and to support major capital projects.

Together with endowment gifts and gifts for capital projects, current use giving is vital to the School's economic model. Driven by the HBS community's generosity, recent restricted and unrestricted current use giving to HBS has been nothing short of extraordinary—growing from a total of \$26 million five years ago to \$63 million in fiscal 2015.

Unrestricted current use giving is particularly crucial because it functions as a flexible source of seed money to launch the

In fiscal 2015 and for the prior three years, this master plan has focused on expanding Executive Education space in the northeast section of the campus. These new and newly renovated buildings were designed to increase and enhance the quality of the living, dining, and educational capacity available on campus in a highly competitive arena.

Fiscal 2015 also marked the first of several years of investment in Klarman Hall, a new facility adjacent to the Spangler Center. Scheduled for opening in fiscal 2018, Klarman Hall has been designed to leverage the School's convening power by accommodating the hundreds of diverse events hosted by HBS each year.

In addition, the School continued to invest in energy efficiency measures to meet the University's ambitious greenhouse gas emissions goals. Demonstrating the impact

Fellowship Spending (in millions)	MBA	Total*
FY 15	\$ 33	\$ 44
FY 14	31	43
FY 13	29	40
FY 12	27	37
FY 11	26	36

* includes Doctoral Programs and Executive Education

Investment in Research (in millions)	
FY 15	\$ 123
FY 14	117
FY 13	110
FY 12	109
FY 11	97

down substantially from fiscal 2014, resulting in strong sales growth leverage. As a result, the group's margin contribution was up substantially year-over-year, also exceeding our forecast.

In addition to earned income from its competitive business units, the School's economic model relies on two philanthropic revenue streams: distribution from the endowment and current use gifts. The endowment distribution and current use gifts represented 18 percent and 9 percent, respectively, of the School's total revenue in fiscal 2015. The School's distribution of income from the endowment in fiscal 2015, as well as the endowment's investment performance, is discussed in detail on page 11.

It was a solid year for giving as part of The Harvard Business School Campaign. Reflecting strong support across the HBS community, the Campaign raised more

kinds of visionary efforts, such as FIELD and the i-lab in prior years and HBX more recently, which have long driven innovation in teaching and learning at the School. Fiscal 2015 was a strong year for unrestricted current use giving to HBS. Including Campaign giving as well as reunion and annual giving, revenue from unrestricted current use gifts in fiscal 2015 grew by \$8 million, or 29 percent, from the prior year to a record \$36 million.

Income from gifts also provides crucial support for development of the HBS campus. Approximately \$160 million of fiscal 2015 giving to the School was earmarked for capital projects. The School's investments in building renewal and maintenance, infrastructure and I.T. upgrades, and construction of new facilities are based on a comprehensive master plan for preserving and enhancing the campus over the long term.

of these measures to date, the School's fiscal 2015 energy consumption and greenhouse gas emissions were the lowest ever recorded, despite extremely cold weather this past winter.

Restricted current use giving is also important to the economic viability of HBS. Revenue from this source is now included in the School's Income Statement, where it is reported as declining to \$27 million in fiscal 2015, from \$37 million a year earlier. Reporting restricted current use giving as a separate line item is the most notable outcome of our move to full Generally Accepted Accounting Principles (GAAP) reporting during the year, along with the first-ever inclusion of depreciation expense, which was approximately flat year-over-year at \$34 million.

The University has asked all the Harvard schools to report their results on a GAAP basis in pursuit of greater comparability

across the schools. In addition to results for fiscal 2015, this year's HBS Statement of Activity and Cash Flows reports results for fiscal years 2013 and 2014 that have been restated in accordance with GAAP.

Our prior accounting approach provided a useful lens through which to view the School's operations and assess its financial condition. Compared with GAAP reporting, it placed greater emphasis on changes in cash generated by the business. Our prior

STRATEGIC FINANCIAL CHALLENGES

Looking ahead to fiscal 2016 and future years, our key financial objective is to support the higher fixed costs we anticipate related to the MBA curriculum and HBX, ongoing investments in I.T. and campus renewal and maintenance, and continued innovation. We will be operating in as lean a manner as possible—asking the organization to make tradeoffs when necessary and instilling greater discipline in the School's

Readers of this report will note that, for the first time, our fiscal 2015 income statement includes HBX, along with Executive Education and HBP, as one of the School's revenue-generating groups. HBX is modeled on the School's core principle of participant-centered MBA education. But unlike the MBA program, HBX is envisioned by the School as an initiative that will evolve into a self-sustaining and surplus-generating activity. This will take some time, however.

Publishing Revenue (in millions)

FY 15	\$ 203
FY 14	194
FY 13	180
FY 12	165
FY 11	152

Executive Education Revenue (in millions)

FY 15	\$ 168
FY 14	163
FY 13	146
FY 12	142
FY 11	132

I.T. Investment (in millions)

FY 15	\$ 80
FY 14	79
FY 13	68
FY 12	54
FY 11	50

approach, however, did not mirror the University's practice of including depreciation as a line item on its income statement. Depreciation can be considered a proxy for the ongoing campus investment necessary to prevent the deferred maintenance problem experienced by a great many universities. We believe that including depreciation in the School's financial results will add healthy discipline to our future financial planning.

This discipline served the School well in fiscal 2015. Given the anticipated constraints on revenue, continued strategic investment, and growing expenses, our financial forecast assumed that internally generated cash flow would be modest at best. The School's actual financial results were stronger than we expected, primarily driven by healthy contribution margins from HBP and Executive Education, as well as growth in income from alumni giving to the School.

The resulting incremental cash flow from operations enabled HBS to continue to fund its core educational programs, drive innovation in teaching and research, and invest in strategic opportunities, while still concluding fiscal 2015 with a stronger-than-expected balance of unrestricted reserves. These reserves are crucial in providing the School with sufficient liquidity to execute on its mission and sustain the campus through economic cycles over the long term.

budgeting processes. For example, in fiscal 2015 we strengthened the School's I.T. expense governance, capping spending in certain areas and prioritizing projects based on their alignment with strategic goals.

Although these efforts will sound familiar to anyone running a for-profit business, certain nuances make expense management somewhat different at HBS and in higher education, generally. The concept of productivity, for instance, does not strictly apply to an enterprise like HBS that strives to provide faculty members with robust support for their research. In a similar vein, the School's space and occupancy expenses are not considered "overhead," but rather costs that are inherent in creating a physical environment that enhances the residential learning experience.

In addition, the HBS learning model is inherently more expensive than programs that rely largely on lectures, and MBA education remains at the top of the School's investment priority list. For example, complementing the case method with field-method teaching in the elective curriculum will require significant new resources. Future MBA curriculum innovation beyond FIELD likely will lead to additional costs. Rather than being borne by students, funding for these new MBA program expenses will have to come primarily from gifts to the School.

HBX generated \$5 million in revenue on expenses of \$16 million in fiscal 2015, resulting in an operating deficit of \$11 million. Looking ahead to fiscal 2016, we are anticipating higher expenses as well as increased revenue, meaning that HBX is not expected to contribute positive operating margin in the near term.

The HBS I.T. infrastructure is becoming increasingly fundamental to every aspect of the School's work and activities. New technology applications, for example, were instrumental in the rollout of FIELD in the MBA program. Computer-based modeling and simulation are used extensively in both MBA and Executive Education. The School must invest, as well, in the back-of-house platforms that support teaching and learning—programs that facilitate everything from admissions to housing to course delivery.

As a result, the School's I.T. investments, including both operating and capital expenses, have grown at a compound annual rate of nearly 15 percent over the past five years—from \$40 million in fiscal 2010 to \$80 million in fiscal 2015. I.T. spending represented 10.8 percent of the School's total operating expenses in fiscal 2015, compared with 8.2 percent on a smaller expense base five years earlier. Consequently, I.T. is front and center as we work to exert more control over the School's total expense growth rate going forward.

The School also faces incremental permanent expenses related to campus expansion. HBS plans to invest more than \$400 million in the campus during the next five years. This investment will enhance the School's physical infrastructure in line with its evolving educational and strategic objectives. Expansion of the campus footprint will also give rise to increased costs related to space and occupancy, depreciation, and facilities renewal and maintenance.

Capital Investment (in millions)

FY 15	\$ 81
FY 14	92
FY 13	80
FY 12	51
FY 11	34

FISCAL 2016 OUTLOOK

Looking at the School's recent financial results in light of these dynamics, HBS has been remarkably successful in maintaining a balance of unrestricted reserves for investing in innovation while accommodating campus expansion, and providing for long-term financial security and flexibility. Our challenge is to extend this record of success into fiscal 2016 and future years.

This will involve adjusting spending as necessary in light of trends in the global economy. It will also require further growth in unrestricted current use giving, as well as endowment giving for timeless activities such as professorships, fellowships, FIELD, and cross-disciplinary global research.

With that as background, let me provide a brief look at our near-term financial expectations. For planning purposes, we have assumed that global economic conditions—and therefore academic and higher education market trends—will generally mirror those experienced in fiscal 2015. This assumption underlies our forecast of total year-over-year revenue growth of 4 percent in fiscal 2016.

The School's revenue from MBA tuition and fees is projected to increase at about the same rate. This will be partially offset by a 9 percent increase in financial aid, primarily

earmarked for MBA fellowships. At HBP, revenue for fiscal 2016 is forecasted to grow in the range of 2 to 3 percent, as the impacts of the revenue recognition accounting transition begin to diminish. Executive Education revenue is expected to increase 1 percent from fiscal 2015, reflecting the capacity constraints mentioned previously.

The University has advised the School that its fiscal 2016 endowment payout will grow 6 percent from fiscal 2015. With this antic-

Building Debt Outstanding (in millions)

FY 15	\$ 78
FY 14	85
FY 13	91
FY 12	99
FY 11	103

ipated payout, as well as income from new gifts to the endowment, we expect the School's total endowment distribution revenue for fiscal 2016 to increase nearly 9 percent from fiscal 2015. Anticipating continued strong Campaign results, we are forecasting approximately the same level of total current use giving as in fiscal 2015.

Moving down the Income Statement, we remain committed to rigorous expense control in fiscal 2016 for the reasons outlined above. The School's revenues have grown at a compound annual rate of 8 percent over the past five years, while expenses have risen 8.7 percent. As a result, operating margin declined from 9.6 percent in fiscal 2010 to 6.6 percent this past year. We have made it a priority to reverse this trend over the long term. Although our fiscal 2016 financial plan assumes a 9 percent increase in total operating expenses, we are working diligently to bring in a lower actual number.

Nearly 50 percent of the School's expense base relates to compensation for faculty and administrative staff. Reflecting salary increases and benefits costs, the School's fiscal 2016 financial plan assumes a 7 percent increase year-over-year in total compensation expense. Collectively, the School's other line item expenses are expected to increase 11 percent from fiscal

2015, in large part driven by growth-focused investments in Executive Education, HBP, and HBX.

The School's total capital budget for fiscal 2016 is \$96 million—up more than 18 percent from the \$81 million invested in fiscal 2015. In addition to ongoing Ruth Mulan Chu Chao Center and Klarman Hall construction, this budget reflects a second consecutive year of significantly increased capital investment in smaller renewal, upgrade, and energy efficiency projects across the campus. These projects are designed to prevent deferred maintenance and to preserve the value of the campus for future generations.

Over the past several years, the School has made good progress on its strategic objectives while continuing to generate a healthy operating surplus. Our highest priority is to extend this record in fiscal 2016. We are keeping a watchful eye on the economic trends, and our financial plan and reserves balance provide the flexibility necessary to adjust to changing conditions while continuing to invest in mission-driven innovation and campus development.

We remain committed to thoughtful stewardship of the School's resources in the year ahead.



RICHARD P. MELNICK, MBA 1992
CHIEF FINANCIAL OFFICER
OCTOBER 1, 2015

STATEMENT OF ACTIVITY & CASH FLOWS*

FOR THE FISCAL YEAR ENDED JUNE 30,

Revenues (in millions)	2015	2014	2013
MBA Tuition & Fees	\$ 120	\$ 113	\$ 107
Executive Education Tuition	168	163	146
Publishing	203	194	180
Endowment Distribution	127	123	119
Unrestricted, Current Use Gifts	36	28	22
Restricted, Current Use Gifts	27	37	21
HBX	5	—	—
Housing, Rents, & Other	21	18	16
Interest Income	—	—	1
Total Revenues	\$ 707	\$ 676	\$ 612
Expenses			
Salaries & Benefits	\$ 294	\$ 276	\$ 255
Publishing & Printing	65	66	62
Space & Occupancy	68	66	56
Supplies & Equipment	7	4	5
Professional Services	52	57	40
Fellowships	44	43	40
University Assessments	20	19	18
Debt Service	5	5	6
Depreciation	34	33	28
Other Expenses	71	76	61
Total Expenses	\$ 660	\$ 645	\$ 571
Cash from Operations	\$ 47	\$ 31	\$ 41
Depreciation	34	33	28
Non-Cash Items	—	9	—
Cash Available for Capital Activities	\$ 81	\$ 73	\$ 69
Capital Expenses	\$ (81)	\$ (92)	\$ (80)
Change in Capital Project Pre-Funding	(9)	16	(28)
Use of Gifts for Capital Projects	38	17	11
Net Capital Expenses	\$ (52)	\$ (59)	\$ (97)
New Borrowings	\$ 0	\$ 0	\$ 0
Debt Principal Payments	(7)	(6)	(6)
Capitalization of Endowment Income	(3)	(5)	(3)
Decapitalization of Endowments	5	21	5
Other Non-Reserve Activity	2	(8)	(4)
Changes in Debt & Other	\$ (3)	\$ 2	\$ (8)
Increase (Decrease) in Reserves	\$ 26	\$ 16	\$ (36)
Beginning Reserves Balance	\$ 99	\$ 83	\$ 119
Ending Reserves Balance	\$ 125	\$ 99	\$ 83

CONSOLIDATED BALANCE SHEET

FOR THE FISCAL YEAR ENDED JUNE 30,

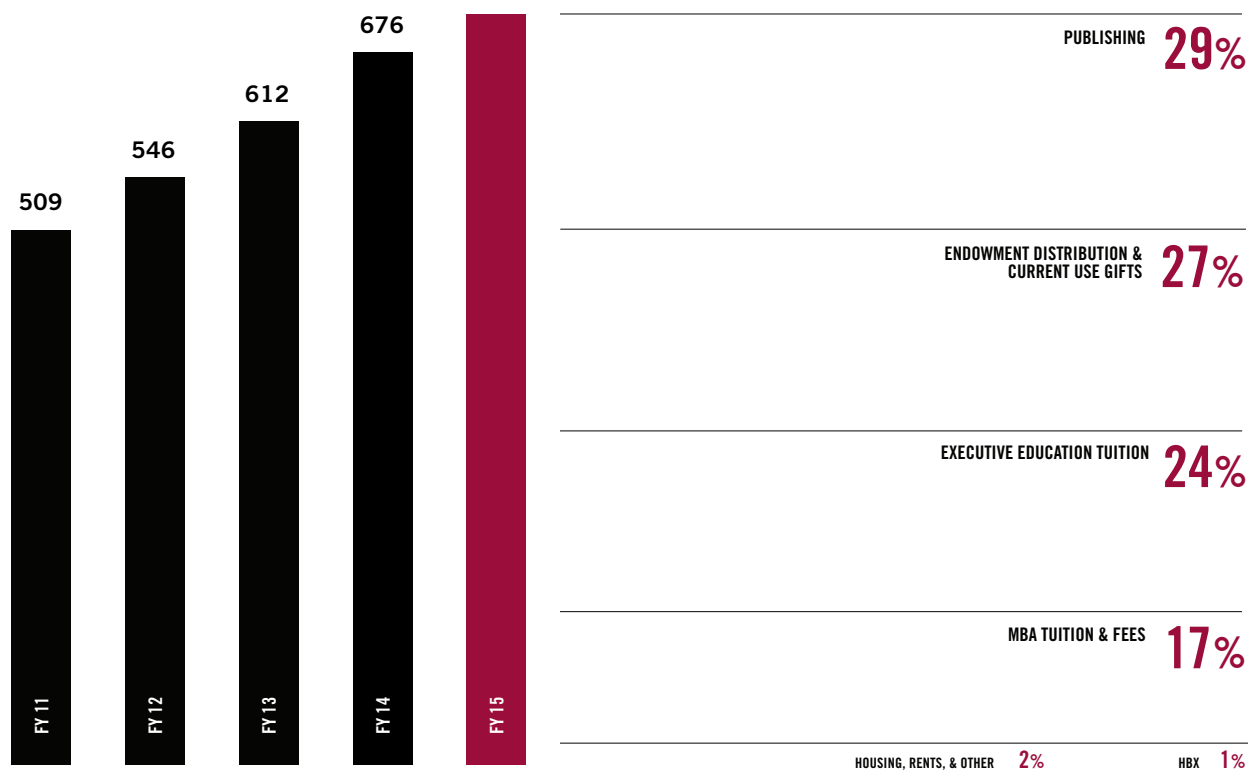
Assets (in millions)	2015	2014	2013
Cash	\$ 62	\$ 44	\$ 38
Reserves	125	99	83
Receivables, Loans, & Other Assets	463	475	319
Invested Funds:			
Endowment Investments	3,076	2,970	2,658
Current Fund Investments	93	96	78
Interest in Trusts Held by Others	154	158	144
Facilities, Net	614	567	511
Total Assets	\$ 4,587	\$ 4,409	\$ 3,831
Liabilities			
Deposits, Advances, & Other	\$ 64	\$ 60	\$ 56
Deferred Revenue	110	88	85
Other Debt Owed to University	26	27	23
Building Debt	78	85	91
Total Liabilities	\$ 278	\$ 260	\$ 255
Net Assets			
Reserves	\$ 125	\$ 99	\$ 83
Undistributed Income & Other	13	16	5
Pledge Balances	301	317	179
Student Loan Funds	11	11	9
Investment in Facilities	536	482	420
Endowment & Current Use Funds	3,323	3,224	2,880
Total Net Assets	\$ 4,309	\$ 4,149	\$ 3,576
Total Liabilities + Net Assets	\$ 4,587	\$ 4,409	\$ 3,831

* In pursuit of greater comparability across the Harvard schools, the University has asked all the schools to report their net results in accordance with generally accepted accounting principles (GAAP) in the United States. In addition to results for fiscal 2015, the School's results for fiscal years 2013 and 2014 are presented in accordance with GAAP within the Statement of Activity and Cash Flows on page 8.

SUPPLEMENTAL

FINANCIAL INFORMATION

\$707 million



REVENUES

At the core of the School's economic model is internally funded faculty research. The resulting intellectual capital is disseminated through its educational programs (including MBA, Doctoral, Executive Education, and HBX), as well as through Harvard Business Publishing (HBP) to students, academics, and managers around the world.

Completing a self-sustaining cycle, revenues—from MBA tuition, alumni gifts, and Executive Education and HBP margin con-

tributions, and eventually including HBX as well—serve as the primary source of research funding. These funds also provide crucial support for innovation at Harvard Business School (HBS). Recent examples include the Harvard i-lab, experiments in teaching and learning such as FIELD, and HBX.

Philanthropic revenues, including distribution from the endowment and current use gifts, are equally important to the HBS eco-

nomical model. Funds from alumni giving provide additional financial stability and flexibility that are crucial to the School's ability to execute on its mission.

The revenues from these sources in any given year are sensitive to trends in the economy and the capital markets. These trends remained favorable for a fifth consecutive year in fiscal 2015. As a result, the School's total revenues* grew by \$31 million, or 5 percent, from fiscal 2014.

* In pursuit of greater comparability across the Harvard schools, the University has asked all the schools to report their net results in accordance with generally accepted accounting principles (GAAP) in the United States. In addition to results for fiscal 2015, the School's results for fiscal years 2013 and 2014 are presented in accordance with GAAP within the Statement of Activity and Cash Flows on page 8.

MBA Tuition & Fees

Student tuition and fee revenue from the School's core educational program grew to \$120 million, from \$113 million in fiscal 2014. First-year MBA tuition in fiscal 2015 was \$58,875, compared with \$56,175 last year. The School's combined tuition and fees for fiscal 2015 were near the midpoint among the seven peer schools tracked by HBS. Tuition and fee revenues do not fully recover MBA program operating expenses at HBS, much less the School's long-term investments in academic innovation. The shortfall is offset primarily with income from gifts given by alumni and friends of the School, whose generosity enriches the HBS educational experience for future generations of students.

Executive Education

Following the opening of Tata Hall in 2014, renovating and renaming Baker Hall as Esteves Hall in fiscal 2015 completed the School's long-term plan to add vitally needed Executive Education living space. Dining, project, and gathering space for Executive Education participants remained constrained, however, as construction of the Ruth Mulan Chu Chao Center continued. The Executive Education group successfully managed this challenge and delivered stronger-than-anticipated revenue growth for the year.

Total Executive Education program enrollment increased 6 percent from fiscal 2014 to approximately 10,600, primarily driven by the addition to the portfolio of several new focused and custom programs. Participation in these programs offset lower enrollment in the School's comprehensive leadership and global programs. Reflecting this overall enrollment growth, as well as tuition increases, Executive Education revenue grew 3 percent in fiscal 2015 to \$168 million.

Harvard Business Publishing

The School's publishing group faced unique revenue pressures in fiscal 2015 because of a one-time accounting transition. The School adopted a new approach to revenue recognition for Harvard ManageMentor, an online learning tool for leadership skill development, as it shifts from packaged software to a subscription service model. Nonetheless,

HBP's total revenue grew by a better-than-expected \$9 million, or 5 percent from fiscal 2014, to \$203 million.

Harvard Business Press outperformed on the top line in fiscal 2015. Launching the new Harvard Business Review (HBR) online subscriber site generated growth in subscriptions and circulation, which enabled the group to offset pressures on advertising revenues that are affecting the entire publishing industry. As a result, HBR circulation revenue reached a third consecutive all-time high. Higher education group sales also were up, year-over-year, largely because of increased demand for cases and other offerings. Although eLearning product sales were flat with fiscal 2014 as a result of the new approach to revenue recognition for Harvard ManageMentor, combined sales of HBS cases and reprints plus Harvard Business Press revenue increased 6 percent. International revenues grew 3 percent, comprising 34 percent of total publishing revenues for the year.

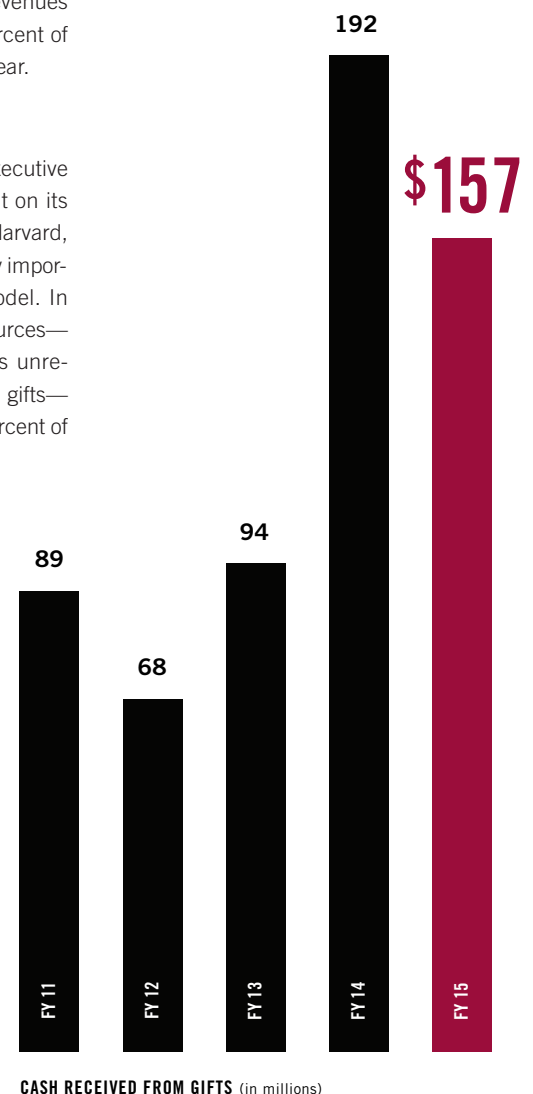
Gifts & Endowment

Although income from HBP and Executive Education makes HBS less reliant on its endowment than other schools at Harvard, philanthropic revenues are crucially important to the School's economic model. In 2015, total revenue from three sources—endowment distribution as well as unrestricted and restricted current use gifts—increased to \$190 million, or 27 percent of

total revenue, from \$188 million in fiscal 2014. In contrast, revenue from the endowment comprised 35 percent, and annual donations for current uses comprised 10 percent of the total operating revenue for the University as a whole in fiscal 2015.

The largest of the School's three philanthropic revenue sources is the annual endowment distribution. The School's endowment distribution for fiscal 2015 increased 3 percent from the prior year to \$127 million, amounting to 18 percent of the School's total revenue.

The HBS endowment currently consists of more than 1,000 discrete funds established over the years by individual donors, corporations, and reunion classes. The School budgets the use of endowment distributions to support operations in accordance with the donors' intentions and the terms of each gift.



The University determines each year's endowment payout rate—that is, the percentage of the endowment's prior-year market value withdrawn and distributed for operations and for one-time or time-limited strategic purposes. This rate applies to HBS and the other schools at Harvard.

Consistent with the long-term goal of preserving the value of the endowment in real terms (after inflation) and generating a predictable stream of available income, the University's targeted annual payout range is between 5.0 and 5.5 percent. The payout rate for fiscal 2015 was 5.1 percent, compared with 5.6 percent for fiscal 2014.

Funds within the HBS endowment, along with those of the other Harvard schools, are managed by Harvard Management Company (HMC), a subsidiary governed and wholly owned by the University. HMC's mission in managing the University endowment is to help ensure that Harvard has the financial resources to confidently maintain and expand its preeminence in teaching, learning, and research for future generations. The investment return on the Harvard endowment for fiscal 2015 was +5.8 percent, net of all expenses and fees, compared with +15.4 percent for the prior year.

In executing on its investment mission, HMC—under the leadership of a new CEO—is pursuing three key objectives. The first is to achieve a real return on the endowment of 5 percent or more on a rolling 10-year annualized basis. Although HMC has exceeded this benchmark in eight of the past 10 years, the level of outperformance has been steadily declining. The second investment objective is to achieve aggregate outperformance of 1 percent or more over appropriate market and industry benchmarks on a rolling five-year annualized basis. The University endowment has exceeded this target in three of the past five years.

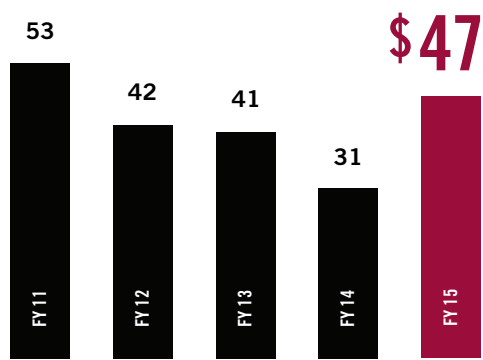
HMC's third investment objective is to achieve top-quartile performance relative to a peer group consisting of the next 10 largest university endowments on a rolling five-year annualized basis. The performance of the Harvard endowment versus this target has been disappointing over the past five years. HMC is committed to delivering improved investment performance for Harvard University in the future.

The fiscal 2015 year-end market value of the HBS endowment, plus the School's current use funds, was \$3.3 billion at June 30, 2015, compared with \$3.2 billion a year

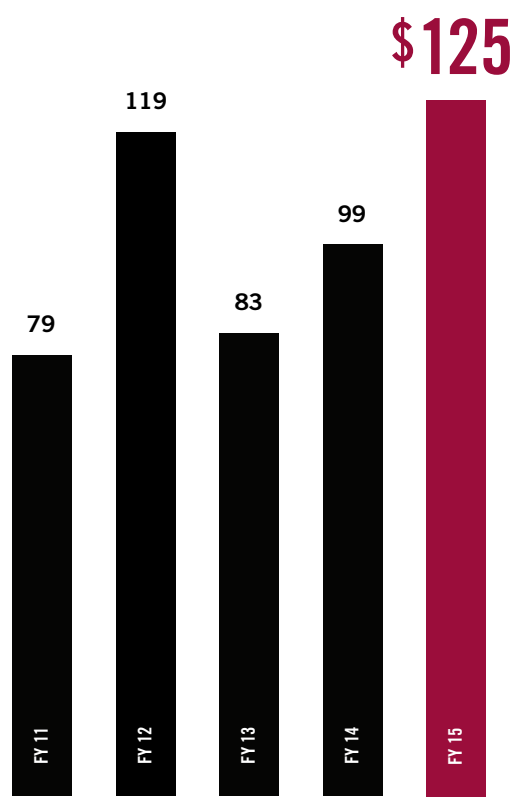
earlier. This increase reflected the 5.8 percent net appreciation in market value and the subtraction of the School's annual distribution and decapitalizations, offset by the \$69 million in endowment gifts received by HBS during the year.

HBS raises its own funds, as do other Harvard schools. Through The Harvard Business School Campaign, the HBS community continued to demonstrate extraordinary involvement and generosity, giving \$166 million in new gifts and pledges to the School during the year. This compares with \$369 million during fiscal 2014.

HBS received gifts from nearly 13,000 donors in fiscal 2015, including MBA, Doctoral, and Executive Education program alumni, as well as friends of the School. Approximately 26 percent of the School's MBA alumni gave to HBS during the year, compared with 28 percent in fiscal 2014. Total cash received from gifts in fiscal 2015, including new endowment gifts and gifts for capital construction projects, payments on prior years' pledges, and restricted and unrestricted current use giving, was \$157 million, compared with \$192 million in fiscal 2014.



CASH FROM OPERATIONS (in millions)



UNRESTRICTED RESERVES (in millions)

Unrestricted current use giving to HBS increased substantially in fiscal 2015 for the third consecutive year. Revenue from these flexible gifts grew 29 percent to \$36 million, from \$28 million in fiscal 2014, providing critical funding for innovation across the School. Cash giving for construction projects decreased to \$24 million from \$46 million. Endowment giving declined to \$69 million, from \$77 million in the prior fiscal year, reflecting normal year-to-year variability.

Starting in fiscal 2015, HBS is reporting revenue from restricted current use gifts as a line item on its Statement of Activity and Cash Flows. This change is a result of the School's shift to GAAP, as detailed on page 5. Revenue from restricted current use gifts decreased 27 percent in fiscal 2015 to \$27 million, from \$37 million in the prior year, reflecting normal year-to-year variability.

Other Revenues

Revenue in the Housing Rents and Other category for fiscal 2015 increased 17 percent from the prior year to \$21 million. This increase largely related to a change in the School's method of accounting for alumni class reunion pass through revenue. The

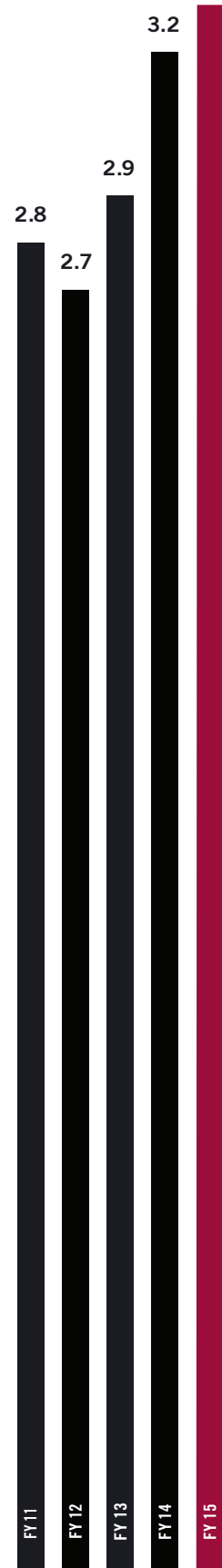
Harvard Endowment Returns

FY 15	5.8%
FY 14	15.4
FY 13	11.3
FY 12	-0.1
FY 11	21.4
FY 10	11.0
FY 09	-27.3
FY 08	8.6
FY 07	23.0
FY 06	16.7

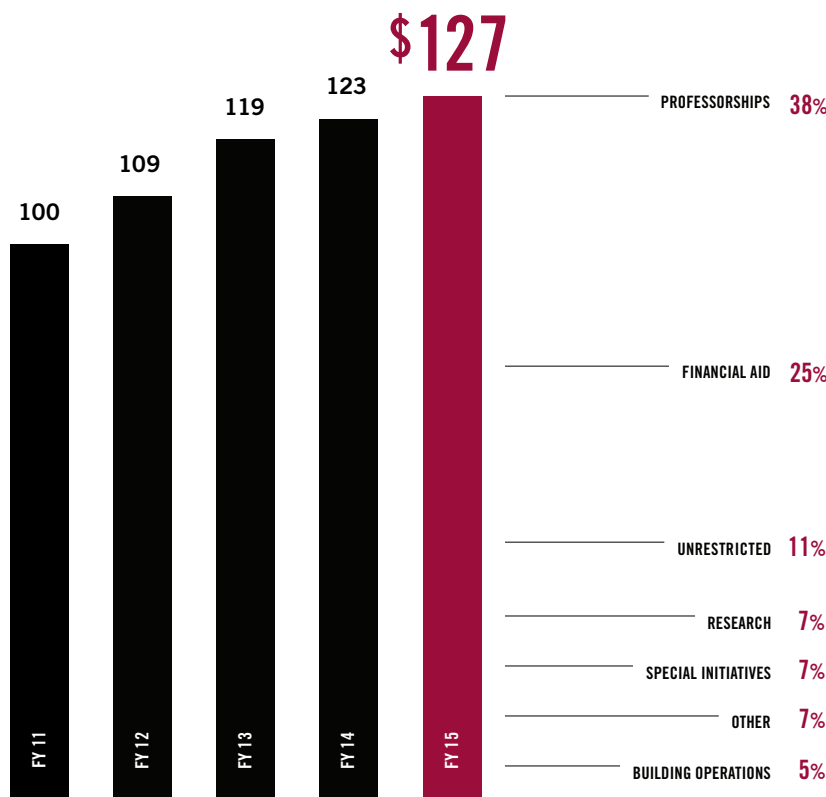
5-Year Growth	10.5%
10-Year Growth	7.6%

School recorded \$5 million in revenue from HBX in 2015, compared with zero revenue in the program's launch year of fiscal 2014. HBX is envisioned by the School as an initiative that, similar to Executive Education and HBP, will evolve over time into an activity that generates revenue and margin contribution. Reflecting historically low interest rates, the School's interest income remained flat year-over-year at zero in fiscal 2015.

\$3.3

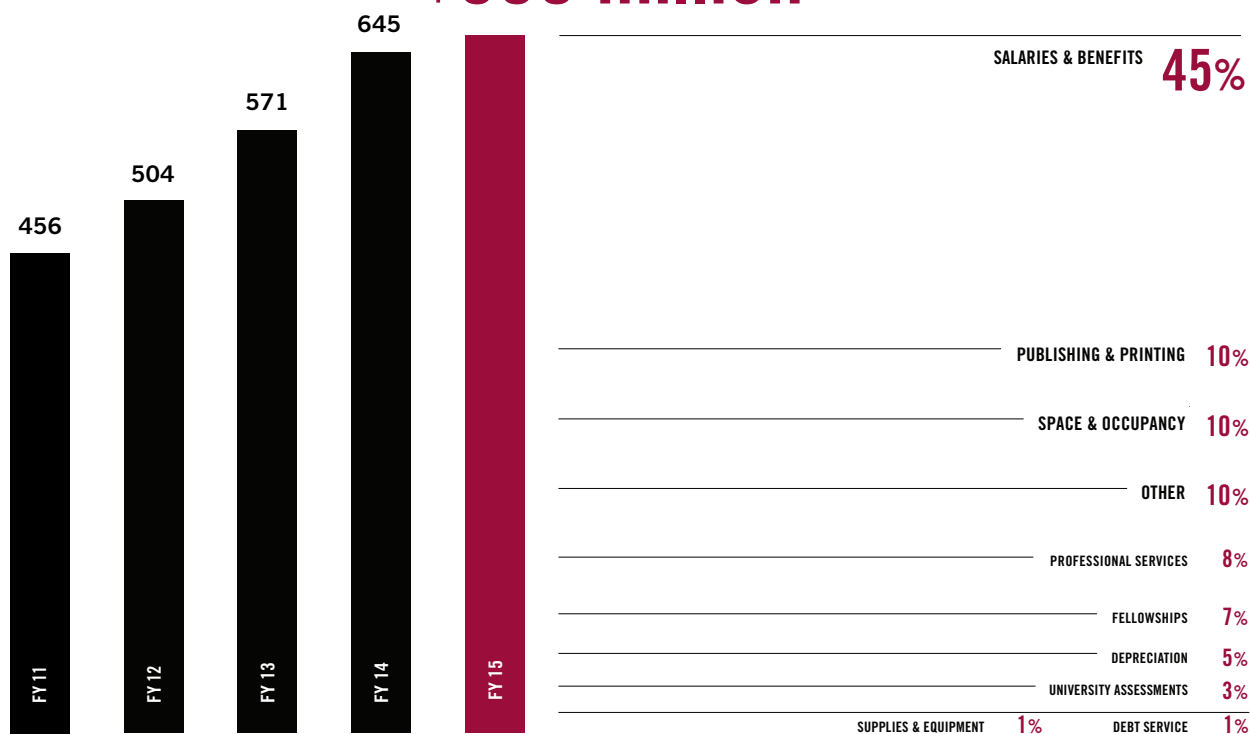


ENDOWMENT GROWTH (in billions)



ENDOWMENT DISTRIBUTION (in millions)

\$660 million



EXPENSES

The School's total operating expenses for fiscal 2015 were \$660 million, up by \$15 million, or 2.3 percent, from the prior year. This increase was primarily driven by spending aimed at positioning HBP and HBX for future growth, and was partially offset by decreased expenses in Executive Education.

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

HBP and Executive Education delivered strong operating leverage on sales growth in fiscal 2015. As a result, despite incurring higher expenses and making significant growth-focused investments, each group provided important income contributions to the School's operations for the year.

Faculty research expenses at HBS—more than 15 percent of the operating budget—cut across several line items in the Statement of Activity and Cash Flows. The cost of faculty research includes a portion of faculty salary and benefits expense. It also includes direct costs for research support staff and travel, and for the School's network of global research centers. In addition, HBS allocates a portion of the costs associated with library resources, campus facilities, technology, and administration

to faculty research. The School's total spending for faculty research support in fiscal 2015 rose by \$7 million, or 6 percent, from the prior year to \$124 million.

Salaries & Benefits

Employee compensation is the School's largest expense, comprising more than 40 percent of total operating costs. Salaries and benefits expense increased 7 percent in fiscal 2015 to \$294 million, from \$276 million in the prior year.

The total number of faculty at HBS, as measured in full-time equivalents (FTEs), can rise or fall in any given year as a result of retirements, departures, and fluctuations in recruiting activity. Net of retirements and departures, the School's faculty decreased by three FTEs

to 231 in fiscal 2015, from 234 FTEs a year earlier. HBS also continued to expand its administrative staff, which grew to a budgeted 1,541 FTEs, from 1,447 in fiscal 2014.

In addition to supporting core academic programs and assisting in I.T. infrastructure development, the majority of the staff positions added in fiscal 2015 were focused on realizing income growth potential in HBP, Executive Education, and HBX, as well as supporting Campaign-driven growth in External Relations.

Fellowships

HBS categorizes fellowships, or financial aid, as an expense line item on the Statement of Activity and Cash Flows. Making education at HBS affordable to a broader cross-section of applicants, regardless of their country of origin or their financial resources, is a longstanding goal of the School. The prospect of entering or returning to the workforce with high levels of education debt can deter strong MBA candidates from applying to HBS and can restrict their career choices upon graduation. This is particularly true for younger students, women, those from outside the United States, and students whose early career paths have not enabled them to reduce their undergraduate loans.

Consequently, one of the School's long-standing goals is to assist students in minimizing their debt at graduation by ensuring that fellowship support at least keeps pace with tuition and fees. Extending the School's long-term record of annual increases in financial aid, average fellowship support per student increased 4 percent in fiscal 2015 to \$32,919, from \$31,710 in the prior year. Over the past five fiscal years, the School's average two-year MBA fellowship award has grown from \$48,375 for the Class of 2011 to \$65,000 for the Class of 2016.

Approximately half of the School's MBA students currently receive fellowships, which cover an average of more than 50 percent of a student's total tuition. Total fellowship expense for fiscal 2015, including assistance for Doctoral candidates and a limited number of Executive Education participants, as well as for MBA students, increased by \$1 million from fiscal 2014 to \$44 million. Funding for fellowships comes from restricted endowment

and current use giving by HBS alumni and friends, and is supplemented by unrestricted funds as necessary.

Publishing & Printing

Publishing and printing expense includes HBP's production costs plus a small amount of spending related to the School's printed materials and publications. HBP's continuing growth in a fast-changing and highly competitive publishing environment reflects, in part, the success of the group's long-term program of strategic investment in digital infrastructure and content.

HBP continued to make growth-focused investments in fiscal 2015, and the scale of its operations further expanded as revenues grew. However, in anticipation of greater pressure on margins, HBP worked diligently to reduce costs during the year. As a result, the School's total publishing and printing expenses for fiscal 2015 decreased by \$1 million from fiscal 2014 to \$65 million.

Space & Occupancy

The HBS campus includes 34 buildings encompassing nearly 1.8 million square feet of occupied space. Space and occupancy expense includes costs related to maintaining and operating the School's buildings and campus infrastructure. In addition, facilities improvement and renovation costs that do not qualify as capital expenses are generally categorized as space and occupancy.

Also included in space and occupancy are expenses related to dining facilities and other campus services, and costs associated with leased space that houses HBP's operations and HBX as well as the School's global research offices. In addition, residence expenses for executive program participants are reported under this category. The School's space and occupancy expense for fiscal 2015 increased by \$2 million from the prior year to \$68 million.

Professional Services

Professional services expense for fiscal 2015 decreased by \$5 million from the prior year to \$52 million. This decrease primarily resulted from lower spending in the Campaign and reduced costs for Executive Education program development. It also reflected the School's fiscal 2015 adoption of GAAP, which requires the capitalization of

I.T. project costs that were previously reported as operating expenses.

Supplies & Equipment and Other Expenses

Spending in the Other Expenses category, which includes items such as travel and catering, decreased by \$5 million in fiscal 2015, to \$71 million. This decrease primarily reflected comparably higher spending in the prior fiscal year related to asset write-downs associated with the demolition of Kresge Hall and the renovation of Baker Hall. Supplies and equipment expense rose by \$3 million from the prior year to \$7 million, primarily because of GAAP-related spending re-categorization.

Debt Service

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

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

Reflecting this cautious approach, the HBS balance sheet historically has been only modestly leveraged, and debt leverage remained low in fiscal 2015. The School's total capital expenses were \$81 million in fiscal 2015, compared with \$92 million in the prior year. As in fiscal 2014, these investments were primarily funded by internally generated cash, and there were no new borrowings. HBS paid down \$7 million in building debt in fiscal 2015, an increase of \$1 million from the prior year.

As a result, the School's year-end fiscal 2015 building debt-to-asset ratio decreased to 1.8 percent, from 2 percent in the prior year. Other University debt—mainly consisting of repayment obligations to the University for mortgage loans made by HBS as a faculty recruiting incentive—decreased by

\$1 million from fiscal 2014 to \$26 million.

The School's debt service expense consists of interest payments to the University and is covered by using cash from operations. Fiscal 2015 debt service expense was flat with the prior year at \$5 million. As in fiscal 2014, this expense was mainly associated with borrowings to finance prior years' campus expansion. The interest portion of the School's debt service amounted to slightly less than 1 percent of total operating expenses in fiscal 2015, the same percentage as in the prior year.

University Assessments

University assessments cover essential services provided to HBS by the University, including payroll and benefits administration, processing of accounts receivable and payable, and legal services. The amount charged to HBS in any given year is primarily calculated as a percentage of the School's total expenses. As expected, the School's expense in fiscal 2015 for these assessments increased by \$1 million from the prior year to \$20 million.

Depreciation

Reflecting the School's conversion to GAAP in fiscal 2015, this year's Statement of Activity and Cash Flows includes depreciation expense for the first time. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The School's depreciation expense for fiscal 2015 increased by \$1 million from the prior year to \$34 million. This report does not include a reconciliation to non-GAAP results for prior years. The conversion to GAAP primarily affected Space and Occupancy, Supplies and Equipment, and Professional Services, where costs previously accounted for as operating expenses have been re-categorized as depreciation expenses.

CASH BEFORE CAPITAL ACTIVITIES

The School's cash from operations increased in fiscal 2015 by \$16 million from the prior year to \$47 million. As in fiscal 2014, this cash was largely generated by margin contributions from Executive Education and HBP, as well as generous giving to the School by alumni and friends. In addition, depreciation contributed \$34 million to the School's cash flow in fiscal 2015,

compared with \$33 million in the prior year. The School's fiscal 2014 cash before capital activities included a \$9 million, non-cash write-off for accelerated depreciation related to the closing of Kresge Hall and the renovation of Baker Hall. There were no comparable non-cash items in fiscal 2015.

NET CAPITAL EXPENSES

During fiscal 2015, the School's capital investments continued to focus on expanding Executive Education residence and academic space in the northeast corner of the campus. HBS also made a significant initial investment in Klarman Hall, and continued to move forward on numerous projects related to the renewal and maintenance of buildings, infrastructure, and I.T. systems across the campus, as well as energy efficiency measures.

The School's fiscal 2015 net capital expenses decreased by \$7 million from the prior year to \$52 million. This decline in part reflected comparably higher expenditures in fiscal 2014. These prior-year expenditures were associated with Executive Education facilities investment, including the completion of Tata Hall and the Executive Education Precinct Tunnel, initial construction of the Ruth Mulan Chu Chao Center and the related demolition of Kresge Hall, as well as initial renovation work at Baker Hall.

Fiscal 2015 net capital expenses were also down from fiscal 2014 because of an increase in the use of gifts for capital projects. This decline was partially offset by \$9 million in pre-funding of fiscal 2016 capital projects. In fiscal 2014, net capital expenses were reduced by \$16 million in capital project pre-funding. This item is described in the accompanying Statement of Activity and Cash Flows as "Change in Capital Project Pre-Funding."

CHANGES IN DEBT & OTHER

The School's debt and other expenses decreased \$3 million in fiscal 2015, compared with an increase of \$3 million in fiscal 2014.

Because gifts, internally generated cash, and unrestricted reserves have been available and sufficient to finance capital activities, fiscal 2015 marked the School's seventh consecutive year with no new bor-

rowings. Debt principal payments increased to \$7 million, from \$6 million in fiscal 2014.

Capitalization of endowment income—or cash used to purchase endowment units—was a \$3 million and a \$5 million use of cash in fiscal 2015 and 2014, respectively. In compliance with federal and state legal requirements, the School's objective is to spend as much of the endowment distribution as possible in any given year, according to the terms of each gift. Funds unspent as a result of gift restrictions are reinvested in the endowment.

Decapitalization of endowment income—or cash drawn from endowment appreciation—was a \$5 million and a \$21 million source of cash in fiscal 2015 and 2014, respectively. In compliance with the law, HBS accesses the investment appreciation within existing endowment accounts when the terms of the gift require funds to be withdrawn at a rate higher than the University's payout rate in any given year. Decapitalizations in fiscal 2014 were unusually high as a result of a one-time \$17 million use of funds in the School's endowment reserve, which was established more than 10 years ago to finance upcoming capital projects.

Other non-reserve activity in fiscal 2015 was positive \$2 million, compared with negative \$7 million in the prior year.

ENDING BALANCE, UNRESTRICTED RESERVES

Together with a mix of internally generated cash, gifts, and debt, HBS relies on unrestricted reserves to finance major campus expansion projects and to capitalize on unforeseen strategic opportunities. More than 50 percent of the School's revenues come from Executive Education and HBP—business units that are highly sensitive to the economy.

Consequently, maintaining an ample balance of unrestricted reserves outside of the endowment is crucial in providing HBS with sufficient liquidity to fulfill its educational and research mission on a long-term basis. Driven by the School's continued healthy cash from operations, fiscal 2015 was a successful year in this regard. HBS sustained its operations while investing in the campus and in strategic innovation, and still concluded the year with a strong unrestricted reserves balance of \$125 million.

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

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

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

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