

# APPENDIX

## FACULTY OF ARTS AND SCIENCES MANAGERIAL FINANCIAL REPORT

FISCAL YEAR 2013

HARVARD UNIVERSITY

**This statement presents a managerial review of the Faculty of Arts and Sciences of Harvard University operations. The figures presented in the report have not been audited, are not intended to present financial results in accordance with generally accepted accounting principles (GAAP), and do not represent a subset of the University's financial statements and related footnotes.**

(in millions)

**Faculty of Arts and Sciences**  
**Consolidated**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2013**

	note	Fiscal Year 2013			Fiscal Year 2012		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>							
Tuition and Fees		\$ 456.1	-	\$ 456.1	\$ 443.1	-	\$ 443.1
<i>Less: Financial Aid</i>	(1)	(94.4)	(136.0)	(230.4)	(88.9)	\$ (137.2)	(226.1)
Net Tuition and Fees		361.7	(136.0)	225.7	354.2	(137.2)	217.0
Grants and Contracts - direct	(2)	-	155.0	155.0	-	160.1	160.1
Grants and Contracts - indirect		53.7	--	53.7	54.8	-	54.8
Endowment Distribution	(3)	208.5	401.7	610.2	197.4	379.6	577.0
Other Investment Income	(4)	1.1	1.6	2.7	1.7	2.6	4.3
Current-Use Gifts		30.0	79.6	109.6	32.8	46.7	79.5
Transfers from University - Academic Programs	(5)	34.0	26.6	60.6	34.2	31.2	65.4
Other Income	(6)	43.8	-	43.8	44.9	0.4	45.3
Total Revenues (a)		732.8	528.5	1,261.3	720.0	483.4	1,203.4
<b>Expenses</b>							
Salaries and Wages	(7)	229.5	214.7	444.2	242.2	219.7	461.9
Employee Benefits		67.9	57.3	125.2	72.4	59.4	131.8
Fellowships and Awards		15.6	54.1	69.7	15.4	51.8	67.2
Supplies, Materials and Equipment		20.5	39.5	60.0	25.3	39.4	64.7
Operations and Maintenance of Plant	(8)	103.5	38.8	142.3	98.1	37.6	135.7
Principal and Interest on Internal Debt		92.5	0.1	92.6	97.9	0.1	98.0
Transfers to University - University Assessment	(9)	40.1	-	40.1	39.2	-	39.2
Transfers to University - Academic Programs	(10)	22.4	0.5	22.9	22.4	0.6	23.0
Services Purchased		93.4	55.2	148.6	43.0	46.3	89.3
Other Expenses	(11)	25.8	35.4	61.2	23.8	39.0	62.8
Total Expenses (b)		711.2	495.6	1,206.8	679.7	493.9	1,173.6
<b>Net Operating Results</b>		<b>21.6</b>	<b>32.9</b>	<b>54.5</b>	<b>40.3</b>	<b>(10.5)</b>	<b>29.8</b>
<b>Investment in Plant and Equipment, net (c)</b>	(12)	<b>(67.9)</b>	<b>(36.2)</b>	<b>(104.1)</b>	<b>(83.5)</b>	<b>(42.9)</b>	<b>(126.4)</b>
<b>Net Transfer (to)/from Endowment (d)</b>	(13)	<b>25.6</b>	<b>40.2</b>	<b>65.8</b>	<b>(5.3)</b>	<b>115.0</b>	<b>109.7</b>
<b>Other Changes in Net Assets (e)</b>	(14)	<b>8.5</b>	<b>6.5</b>	<b>15.0</b>	<b>13.6</b>	<b>(47.2)</b>	<b>(33.6)</b>
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>		<b>\$ (12.2)</b>	<b>\$ 43.4</b>	<b>\$ 31.2</b>	<b>(34.9)</b>	<b>\$ 14.4</b>	<b>(20.5)</b>

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(in millions)

**Faculty of Arts and Sciences**  
**Core**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2013**

	Fiscal Year 2013			Fiscal Year 2012		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>						
Tuition and Fees	\$ 377.5	-	\$ 377.5	\$ 365.7	-	\$ 365.7
<i>Less: Financial Aid</i>	(88.2)	(127.6)	(215.8)	(82.8)	\$ (128.7)	(211.5)
Net Tuition and Fees	289.3	(127.6)	161.7	282.9	(128.7)	154.2
Grants and Contracts - direct	-	119.8	119.8	-	124.8	124.8
Grants and Contracts - indirect	38.9	--	38.9	38.7	-	38.7
Endowment Distribution	174.8	289.3	464.1	165.3	272.8	438.1
Other Investment Income	0.3	0.7	1.0	0.5	1.3	1.8
Current-Use Gifts	29.6	67.7	97.3	32.4	32.9	65.3
Transfers from University - Academic Programs	20.3	24.9	45.2	20.8	29.7	50.5
Other Income	9.1	1.5	10.6	11.6	0.8	12.4
Total Revenues (a)	562.3	376.3	938.6	552.2	333.6	885.8
<b>Expenses</b>						
Salaries and Wages	172.9	153.5	326.4	170.4	159.2	329.6
Employee Benefits	51.6	40.1	91.7	50.1	43.3	93.4
Fellowships and Awards	15.2	50.3	65.5	14.8	47.3	62.1
Supplies, Materials and Equipment	10.2	20.9	31.1	15.2	19.6	34.8
Operations and Maintenance of Plant	83.1	27.2	110.3	78.3	25.4	103.7
Principal and Interest on Internal Debt	86.6	0.1	86.7	92.6	0.1	92.7
Transfers to University - University Assessment	30.7	-	30.7	30.0	-	30.0
Transfers to University - Academic Programs	18.8	0.5	19.3	18.9	0.6	19.5
Services Purchased	55.8	33.4	89.2	25.9	33.0	58.9
Other Expenses	9.1	24.5	33.6	7.7	25.7	33.4
Total Expenses (b)	534.0	350.5	884.5	503.9	354.2	858.1
<b>Net Operating Results</b>	28.3	25.8	54.1	48.3	(20.6)	27.7
<b>Investment in Plant and Equipment, net (c)</b>	(45.4)	(27.3)	(72.7)	(71.3)	(35.5)	(106.8)
<b>Net Transfer (to)/from Endowment (d)</b>	25.6	34.2	59.8	(0.4)	131.9	131.5
<b>Other Changes in Net Assets (e)</b>	8.2	6.0	14.2	13.7	(47.8)	(34.1)
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>	<b>\$ 16.7</b>	<b>\$ 38.7</b>	<b>\$ 55.4</b>	<b>(9.7)</b>	<b>\$ 28.0</b>	<b>\$ 18.3</b>

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**Faculty of Arts and Sciences**  
**Consolidated Balance Sheet**

(in millions)

		June 30	
	<i>note</i>	2013	2012
<b>ASSETS:</b>			
Deposits with the University.....	(15)	\$ 701.7	\$ 612.0
Receivables			
Student Receivables .....		3.1	2.7
Other Receivables .....		29.9	25.6
Prepayments and deferred charges.....		17.3	17.6
Notes Receivable .....	(16)	145.0	141.6
Pledges Receivable .....		337.1	271.3
Fixed assets, net of accumulated depreciation .....	(17)	1,625.4	1,615.6
Interests in perpetual trusts held by others .....		82.6	82.5
Long-term investments (primarily endowment).....	(18)	14,312.6	13,512.9
<b>TOTAL ASSETS</b>		<b>17,254.7</b>	<b>16,281.8</b>
<b>LIABILITIES:</b>			
Accrued Expenses .....		18.1	9.2
Deferred Revenue and other liabilities .....		68.2	53.5
Internal Debt Obligations .....	(19)	899.0	922.8
Government loan advances .....	(20)	9.0	9.3
<b>TOTAL LIABILITIES</b>		<b>994.3</b>	<b>994.8</b>
<b>TOTAL NET ASSETS</b>	(21)	<b>16,260.4</b>	<b>15,287.0</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 17,254.7</b>	<b>\$ 16,281.8</b>

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## NOTES TO STATEMENT OF ACTIVITIES

### 1. FINANCIAL AID

FAS financial aid to undergraduate, graduate, and continuing education students in the form of institutional scholarships and external grants totaled \$230.4 million in FY13. This is an increase of \$4.3 million or 1.9 percent above FY12. Harvard's Affordability Initiative has dramatically reduced the amount families contribute to the cost of attending Harvard College and alleviated the need for students to take out loans. Families with annual incomes below \$65,000 now pay nothing towards the cost of their students' attendance at the College.

Since 2007, Harvard's investment in financial aid has climbed by more than 70 percent, significantly outpacing increases in tuition. Close to 60 percent of Harvard College students receive financial aid, and our most current data reflect that families with students on scholarship pay an average of \$12,000 annually toward the cost of a Harvard education.

Financial aid presented in the table below excludes \$69.7 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity.

<i>(in millions)</i>	FY 2013			FY 2012		
	Unrestricted	Restricted <sup>(1)</sup>	Total	Unrestricted	Restricted <sup>(1)</sup>	Total
Undergraduate	\$ 61.6	\$ 104.0	\$ 165.6	\$ 58.0	\$ 106.2	\$ 164.2
Graduate	26.9	29.4	56.3	25.0	28.5	53.5
Continuing Education	5.9	2.6	8.5	5.9	2.5	8.4
Total Financial Aid	<b>\$ 94.4</b>	<b>\$ 136.0</b>	<b>\$ 230.4</b>	<b>\$ 88.9</b>	<b>\$ 137.2</b>	<b>\$ 226.1</b>

(1) Includes gifts, endowment income, and sponsored support

### 2. GRANTS AND CONTRACTS

FAS grants and contracts decreased by 3 percent in FY13 to \$208.7 million, from \$214.9 million in FY12. Grants and contracts are comprised of the following:

<i>(in millions)</i>	FY 2013			FY 2012		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 35.7	\$ 18.5	\$ 54.2	\$ 36.4	\$ 19.0	\$ 55.4
National Science Foundation (NSF)	26.4	13.7	40.1	29.4	14.2	43.6
Department of Defense (DoD)	23.8	8.1	31.9	24.5	8.4	32.9
Other	20.4	8.3	28.7	20.1	7.9	28.0
Subtotal - Federally-Sponsored Research	106.3	48.6	154.9	110.4	49.5	159.9
Non-Federally Sponsored Research	26.8	5.1	31.9	28.7	5.3	34.0
Other Sponsored Awards	21.9	0.0	21.9	21.0	0.0	21.0
<b>Total Sponsored</b>	<b>\$ 155.0</b>	<b>\$ 53.7</b>	<b>\$ 208.7</b>	<b>\$ 160.1</b>	<b>\$ 54.8</b>	<b>\$ 214.9</b>
<i>Effective Indirect cost rate</i>			<i>34.7%</i>			<i>34.2%</i>

Grants and contracts normally provide for the recovery of direct costs and partial recovery of indirect costs. Direct costs are those costs directly associated with the grant-funded activity (e.g., lab reagents and research materials). Indirect cost recoveries help to pay for related costs such as facilities, libraries and research administration. Indirect costs are ordinarily recovered at a predetermined rate negotiated with the federal government and other sponsors. The negotiated federal rate for the FAS was 69 percent for organized on-campus research in FY13 and FY12. Non-federal sponsors' rates vary. The blended actual or "effective indirect rate" for the FAS, which reflects both the mix of federal and non-federal support as well as the types of activities and expenditures underwritten in federal grants and contracts (only some of which is eligible for the full 69 percent recovery), was 34.7 percent in FY13, an increase from 34.2 percent in FY12.

### 3. ENDOWMENT DISTRIBUTION

FAS endowment returns made available for operations increased by 5.7 percent, to \$610.2 million in FY13 from \$577.0 million in FY12. Endowment income represented 48 percent of the FAS's total revenues.

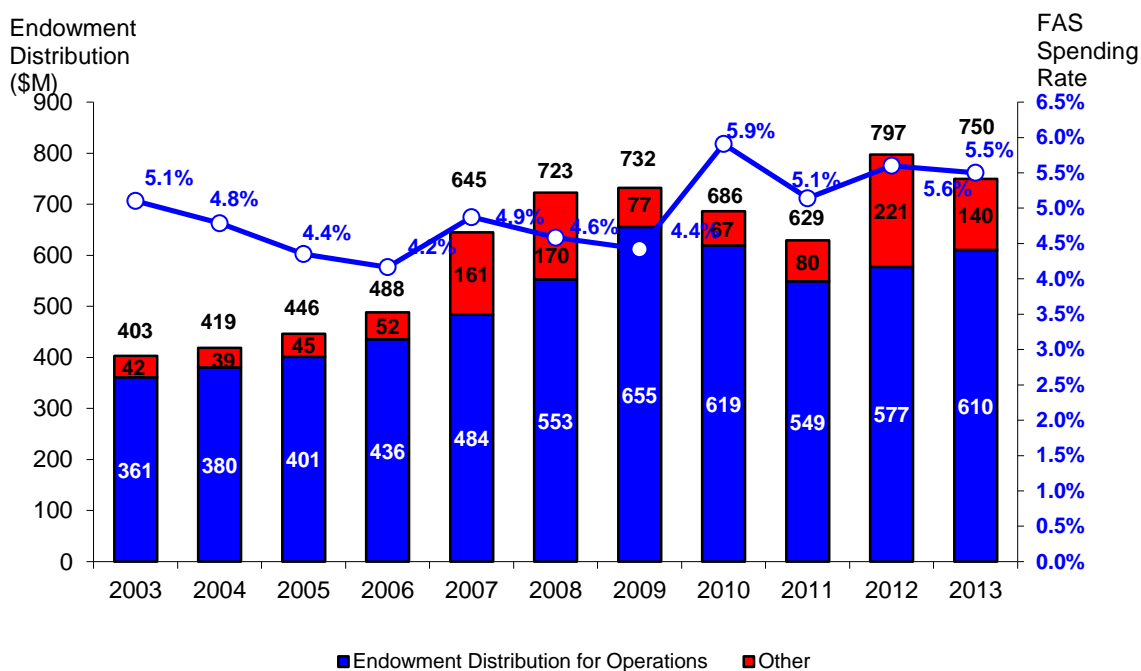
In addition to the annual endowment returns made available for operations, the FAS utilizes the endowment's capacity through decapitalizations and an assessment to support University administrative costs.

Combining all of the FAS endowment distributions, the aggregate FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 5.5 percent in FY13, down slightly from 5.6 percent in FY12. FAS continues to utilize the endowment through decapitalizations as part of its strategy to fund current year costs, where possible and in accordance with donor terms, from restricted sources, allowing the FAS to free up unrestricted resources to support the multi-year House Renewal Program. Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market		% of Market	
	FY 2013	Value	FY 2012	Value
Endowment distribution	\$ 610.2	4.5%	\$ 577.0	4.1%
Distribution for Central Administrative Operations	68.1	0.5%	69.6	0.5%
Endowment decapitalizations	71.5	0.5%	150.9	1.1%
Total spending from endowment	\$ 749.8	5.5%	\$ 797.5	5.6%
Beginning-of-year endowment market value <sup>1</sup>	\$13,553.7		\$14,212.0	

<sup>1</sup> Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY03.



#### 4. OTHER INVESTMENT INCOME

Other investment income includes interest received on reserves, as well as short-term fund interest income and special investment returns. The decrease of \$1.6 million in this category to \$2.7 million in FY13 from \$4.3 million in FY12 was driven by a decrease in the rate of interest paid on fund balances, from 0.3% in FY12 to .05% in FY13.

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## 5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY13, the FAS received \$60.6 million in income transfers predominantly from the Offices of the President and Provost, including funding from the Harvard University Science and Engineering Committee (HUSEC). \$24.9 million was related to gifts and endowments held by the University but allocated to the FAS, for support in the areas of: professorships, financial aid and academic program support; another \$11.9 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$23.8 million of income transfers were to support the FAS (including undergraduate and graduate aid) and University-wide initiatives that are housed within the FAS.

## 6. OTHER INCOME

FAS Other Income included the following in FY13 and FY12:

<i>(in millions)</i>	<b>FY 2013</b>	<b>FY 2012</b>
Rental income	\$ 8.4	\$ 7.5
Sales of services	9.1	10.8
Admissions application fees	5.0	5.0
Program and event income	4.7	3.9
Royalty income	2.6	2.8
Publication income	1.8	2.4
Miscellaneous income	12.2	12.9
<b>Other Income</b>	<b>\$ 43.8</b>	<b>\$ 45.3</b>

Miscellaneous income includes library fees, other fines and fees, interest on mortgages and commissions.



## **7. SALARIES, WAGES AND BENEFITS**

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY13, these costs represented 47 percent of total FAS expenses, totaling \$569.4 million. This figure is 4.1 percent lower than FY12 spending of \$593.7 million. The year-over-year decrease reflects two reorganizations that transferred employees from the FAS to central administrative units. First, FAS Information Technology was combined with the University Information Systems organization to form a unified entity, Harvard University Information Technology (HUIT). Second, as part of the creation of the Harvard Library, some FAS library staff were transferred to the new shared services organization. Together, these reorganizations resulted in the shift of nearly 400 FTEs out of the FAS over a two year period. Adjusting for this change, the FAS saw an overall increase in salaries, wages and benefits of 3 percent, which is in line with the overall salary increase program and fringe benefit rate increases.

## **8. OPERATIONS & MAINTENANCE (O&M) OF PLANT**

FAS operations and maintenance expense increased by \$6.6 million, or by 4.9 percent. At the end of FY13, the FAS campus included 269 buildings comprising approximately of 10.1 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$47.3M), custodial, security and grounds keeping services (\$44.5M), repairs and maintenance (\$43.0M) and rental fees (net of recoveries) (\$7.5M).

## **9. TRANSFERS TO UNIVERSITY - UNIVERSITY ASSESSMENT**

The University Assessment helps to pay for services provided to the FAS by the University, including legal services, general accounting, and maintenance of PeopleSoft and our other enterprise IT systems. All faculties within Harvard University are assessed proportionately based on size of operations. In FY13 the University Assessment increased by 2.3 percent over FY12 from \$39.2 million to \$40.1 million.

## **10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS**

In FY13, the FAS transferred \$22.9 million to the University for Academic Program Support. Almost half of the amount transferred, \$10.5 million, was for the Academic Initiatives Fund, which began in FY00 and provides support for University initiatives at the discretion of the President and Provost. This contribution is made annually by each Harvard Faculty and is based on each Faculty's endowment market value as well as two-year trailing salary and wage expenses, exclusive of student salaries and salaries bearing overhead. Another \$9.9 million was transferred in FY13 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC). In FY13 FAS contributed \$2.5 million to edX, a newly created collaboration between Harvard and MIT in interactive online education.

In FY12, the FAS transferred \$10.2 million to the Academic Initiatives Fund, made a \$10.3 million contribution to HUSEC, and made a \$2.5 million contribution to edX, for a total of \$23.0 million.

## 11. OTHER EXPENSES

Other expenses, which include travel, postage, insurance, telephone and miscellaneous expenses decreased by 2.5 percent to \$61.2 million in FY13 from \$62.8 million in FY12 due to the reorganization of Information Technology and shared services within the Library. Major cost components in this category include: travel and entertainment costs (\$27.5 million), and telephone and photocopying costs (\$9.0 million), and insurance (\$6.8 million). The balance (\$17.9 million) is made up of a number of miscellaneous costs.

## 12. INVESTMENT IN PLANT AND EQUIPMENT, NET

Investment in plant and equipment, net, represents the amount invested by the FAS in current and future year capital projects. FAS capital spending for buildings and equipment totaled \$139.1 million in FY13. Total capital expenditures included \$29.8 million for capital equipment. The balance of \$109.3 was invested in improvements to plant, the largest of which include: \$51.5 million of spending on House Renewal, \$22.5 million for renovations in the Sciences, \$5.1 million for the consolidation project of the Department of Anthropology in Tozzer, \$3.5 million at Dumbarton Oaks primarily for the renovation of a new fellows building, \$3.4 million for major renovations planned in Athletics. The balance includes investments in existing plant, renewal projects in the College residential houses, capital renewal projects, and fit-out of space to support faculty recruitment.

Funding for capital spending in FY13 and FY12 came from the following sources:

<i>(in millions)</i>	FY 2013	FY 2012
Total capital spending	\$ (139.1)	\$ (87.7)
Less: debt proceeds	27.4	5.7
Less: construction gifts	3.7	1.7
Less: funds designated for Construction in Progress/Other	\$3.9	(\$46.1)
<b>Investment in plant and equipment, net</b>	<b>(\$104.1)</b>	<b>(\$126.4)</b>

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In FY13 FAS applied \$104.1 million in funding for capital projects; \$58.6 came from reserves held by the FAS Dean, Dumbarton Oaks, SEAS and the Museum of Comparative Zoology another \$23.1 million was made available through endowment distributions and decapitalizations, \$3.7 million was provided through gifts for construction and the balance was primarily for equipment funded through operating and sponsored funds. In FY12, the FAS transferred \$55.9 million for House Renewal the net of the unspent funding (\$47.8 million) was carried forward and captured in this category.

### **13. NET TRANSFER (TO) / FROM ENDOWMENT**

Net transfers (to) / from the endowment represent changes in the endowment related to endowment capitalizations of unexpended balances and decapitalizations. Endowment decapitalizations occur on funds where the donor or the Corporation has approved spending beyond the annual spending rate to meet programmatic goals.

In FY13 the FAS took out an additional \$65.8 million from the endowment, representing the net of endowment capitalizations and decapitalizations. These proceeds were used to fund unrestricted costs, and capital projects in order to free up resources for current and future House Renewal Program costs.

### **14. OTHER CHANGES IN NET ASSETS**

Other changes in net assets in FY13 include \$14.7 million from split interest agreements and \$5.2 in one-time transfers of funding from non-FAS units. These inflows were offset by a pay down of internal debt of \$4.9 million, due to impairments from renovations at Old Quincy House and Leverett's McKinlock House.

## NOTES TO BALANCE SHEET

### 15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other GOA balances. The increase from \$612.0 million to \$701.7 million or \$89.7 million in FY13 relates to new and unspent current use and construction gifts received in FY13; these gift proceeds will be applied in future years for construction related and program costs. In addition, the FAS held balances on endowment funds decapitalized in FY13 for future house renewal costs.

### 16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2013 and 2012 were as follows:

<i>(in millions)</i>	<u>FY 2013</u>	<u>FY 2012</u>
Student Notes Receivable:		
Perkins Loan Program	\$ 10.6	\$ 11.2
University Loan Program	30.8	28.7
Faculty and Staff	103.6	101.7
<b>Total Notes Receivable</b>	<b><u>\$ 145.0</u></b>	<b><u>\$ 141.6</u></b>

The Perkins Loan Program is a federal program where loan funds are distributed by the government to universities which, in turn, provide loans to students. Faculty and staff notes receivable are primarily mortgages and educational loans. Mortgages include shared appreciation loans and loans that bear interest at the Applicable Federal Rate (AFR). In addition, certain mortgages bear interest at the current market rate, which may be subsidized for an initial period. Educational loans are primarily zero-interest loans.

## 17. FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION

Fixed assets are recorded at cost or fair market value on the date of acquisition, net of accumulated depreciation. Depreciation is computed using the straight-line method computed over the useful life of the asset.

The table below summarizes FAS assets as of June 30, 2013 and 2012:

<i>(in millions)</i>	<u>FY 2013</u>	<u>FY 2012</u>
Research facilities	\$ 1,127.9	\$ 1,103.6
Classrooms and offices	454.7	443.4
Housing facilities	425.0	436.7
Libraries	205.5	204.0
Museums and assembly facilities	137.8	134.9
Athletic facilities	135.8	131.3
Service facilities	19.6	15.3
Capital leasehold improvements	51.4	50.5
Land	5.1	4.8
Construction in Progress	106.1	49.7
Equipment	369.7	340.3
Total fixed assets at cost	<u>3,038.6</u>	<u>2,914.5</u>
Less: accumulated depreciation	<u>(1,413.2)</u>	<u>(1,298.9)</u>
<b>Total fixed assets, net</b>	<b><u>\$ 1,625.4</u></b>	<b><u>\$ 1,615.6</u></b>

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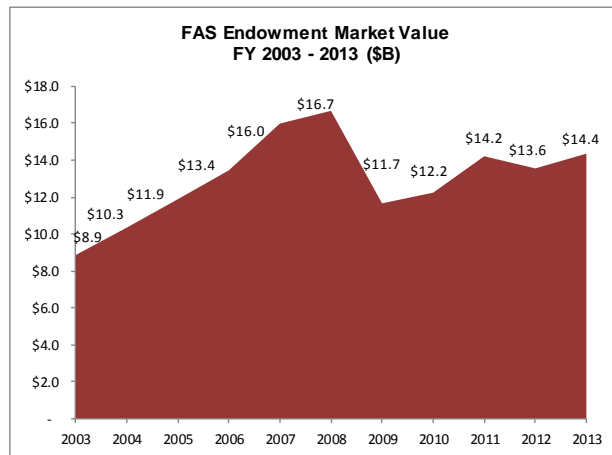
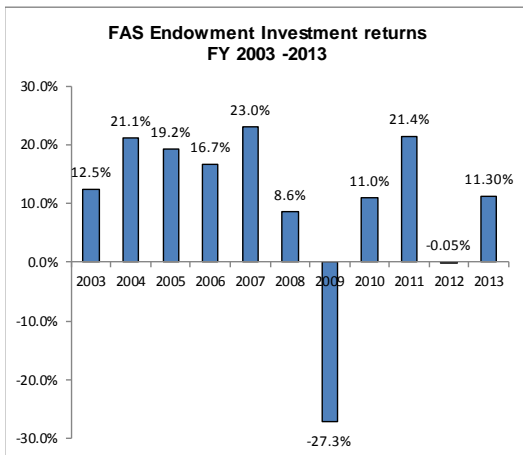
## 18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily in endowment, totaled \$14.3 billion at FY13 year end. The market value of these investments increased by \$0.8 billion, or 5.9 percent, from June 30, 2012. This change is primarily driven by the combination of market returns of 11.3%, and the funding of the annual FY13 endowment distribution for operations. The change in market value includes all endowment activity: investment appreciation and depreciation, endowment distributions, new gifts, additions to endowment (capitalizations), and the use of appreciation for specific purposes approved by the Corporation (decapitalizations).

The table below summarizes the FAS's long-term investments as of June 30, 2013 and 2012:

<i>(in millions)</i>	<b>FY 2013</b>		<b>FY 2012</b>	
Endowment investments	\$	14,307.4	\$	13,512.4
Gift fund investments		5.2		0.5
General Operating Account investments		-		-
<b>Total Long term investments</b>	<b>\$</b>	<b>14,312.6</b>	<b>\$</b>	<b>13,512.9</b>

The charts below summarize the FAS endowment market value over the past ten years from FY03 through FY13:



(1) The 6/30/13 FAS endowment market value of \$14.4 billion includes endowment investments of \$14.3 billion and .1 billion of undistributed investment earnings (this is exclusive of endowment pledges and interests in trusts held by others) when these two are added the FAS endowment market value on 6/30/13 is \$14.6 billion.

**This statement presents a managerial review of the Faculty of Arts and Sciences of Harvard University operations. The figures presented in the report have not been audited, are not intended to present financial results in accordance with generally accepted accounting principles (GAAP), and do not represent a subset of the University's financial statements and related footnotes.**

## 19. INTERNAL DEBT OBLIGATIONS

At the end of FY13, the FAS's outstanding debt was \$899 million, \$23.8 million (2.6 percent) less than FY12.

<i>(in millions)</i>	<u>FY 2013</u>	<u>FY 2012</u>
Long-Term Debt	\$ 795.4	\$ 821.1
Faculty Loans	103.6	101.7
<b>Total Debt and Notes Payable</b>	<b>\$ 899.0</b>	<b>\$ 922.8</b>

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. New borrowings were for campus renewal and construction, including life safety projects in the College's residential houses, and laboratory fit-outs and equipment in several of the science buildings for new faculty.

In addition to scheduled annual principal payments the FAS paid down debt of \$4.9 million in FY13 on assets which have been retired due to the renovation of Old Quincy House and Leverett's McKinlock House. In FY12 the FAS prepaid principal of \$49.9 million in an effort to lower the amount of its long-term debt and set aside future debt capacity for the House Renewal Program.

## 20. GOVERNMENT LOAN ADVANCES

Government student loans are funded principally with federal advances to the University under the Perkins Loan Program and other programs.

## 21. NET ASSETS

Net assets comprise the endowment and the GOA, which are general or current use funds of the FAS, as well as assets and liabilities related to student and faculty loans and facilities. The GOA is managed by the University, which manages deposits made by University departments and arranges financing for capital projects. The GOA manages all transactions except those related to investment activities conducted by the Harvard Management Company.

## **FUND ACCOUNTING GLOSSARY OF TERMS**

### **CURRENT-USE GIFTS:**

Current-use gifts are gifts that may be spent down. Current-use gifts are typically used within a relatively short time frame (one to three years). These gifts may be unrestricted or restricted depending on the terms set forth by the donor. Unrestricted gifts to the FAS are largely contributions to the Harvard College Fund. Foundation gifts may be categorized as current-use, endowment or non-federal grants, depending on the stated terms.

### **FUNDS (BY TYPE):**

**Unrestricted Funds** are those funds which are unencumbered by any restriction. The major sources of unrestricted revenues are tuition and fees, some current-use gifts such as the Harvard College Fund, endowment distribution on some of our endowments, indirect grants and contracts revenue, and a miscellany of sales and other revenues. Unrestricted funds also include funds that are legally unrestricted but have been designated for purposes assigned by Harvard's internal policies or decisions.

**Restricted Funds** include grants and contracts, current-use gifts, and endowment funds with donor-imposed restrictions as well as certain endowment funds that have been internally-designated for a specific purpose. Funds with donor restrictions have constraining terms assigned by individual or foundation donors. Terms describe how the dollars should be spent. The FAS holds over 6,100 restricted endowment funds and over 2,100 restricted gift funds. Endowment funds are invested in the General Investment Account, a pooled fund managed by the Harvard Management Company. The distribution rate is set annually by the Corporation which strives to maintain the purchasing power of the endowment while providing a reliable source of current income.

Restricted funds also include sponsored funds (often referred to as research funds) that are primarily received from government agencies for a specific project or purpose. The University also receives non-federal funds from corporations and foundations; these funds may be included if they concur with sponsored guidelines. The funds may generate an overhead recovery rate that contributes to the support of related facilities and administrative costs.

### **FUND BALANCES:**

The FAS holds deposits in the University in each of our fund types. In some cases these balances represent accumulated distributions on "hard-to-spend" funds because the terms set forth by the donor may be very restrictive (e.g., the FAS holds an endowed scholarship fund to be used for scholarships for students from Gadsden High School, Gadsden, Alabama), in other cases we have accumulated balances in anticipation of significant costs on the horizon, including those related to faculty growth, new buildings, curricular initiatives, study abroad and other strategic investments.



**General Operating Account (GOA):**

The General Operating Account (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.