

# APPENDIX

## FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2016

HARVARD UNIVERSITY

**This statement presents a financial view of the Faculty of Arts and Sciences of Harvard University operations including results of the John A. Paulson School of Engineering and Applied Sciences. 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**  
**Modified GAAP Statement of Activity**  
**Fiscal Year Ending June 30, 2016**

	<u>Fiscal Year 2016</u>	<u>Fiscal Year 2015</u>
<b>Revenues</b>		
Tuition and Fees	\$533.9	\$501.6
<i>Less: Financial Aid</i>	<u>(247.7)</u>	<u>(240.3)</u>
Net Tuition and Fees	286.2	261.3
Grants and Contracts - direct	154.8	152.3
Grants and Contracts - indirect	51.3	50.9
Endowment Distribution	686.0	643.1
Other Investment Income	3.9	3.9
Current-Use Gifts	103.3	120.5
Transfers from University - Academic Programs	55.4	47.7
Other Income	53.4	48.1
Income Reclasses <sup>(1)</sup>	<u>(19.4)</u>	<u>(18.8)</u>
Total Revenues	1,374.9	1,309.0
<b>Expenses</b>		
Salaries and Wages	513.3	485.7
Employee Benefits	133.4	128.6
Fellowships and Awards	78.1	73.2
Supplies, Materials and Equipment	71.6	70.5
Operations and Maintenance of Plant	169.8	162.8
Principal and Interest on Internal Debt	37.6	41.2
Depreciation Expense	125.2	121.6
Transfers to University - University Assessment	44.0	42.7
Transfers to University - Academic Programs	19.4	18.8
Services Purchased	156.6	153.2
Other Expenses	68.3	68.9
Expense Reclasses <sup>(1)</sup>	<u>(19.4)</u>	<u>(18.8)</u>
Total Expenses	1,397.9	1,348.5
<b>Net Operating Results<sup>(2)</sup></b>	<b><u>(\$23.0)</u></b>	<b><u>(\$39.5)</u></b>

(1) Adjustments are made from the FAS Managerial view between revenue and expense categories to reflect natural reporting classifications used by the University

(2) The University includes the loss on disposal of fixed assets in its operating results which are not included on the FAS Modified GAAP view. In FY16, FAS recorded impairments due to various renovations and projects across campus totaling \$8.9m in FY16.

(in millions)

**Faculty of Arts and Sciences**  
**Consolidated**  
**Managerial Statement of Activity**  
**Fiscal Year Ending June 30, 2016**

	note	Fiscal Year 2016			Fiscal Year 2015		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>							
Tuition and Fees		\$533.9	-	\$533.9	\$501.6	-	\$501.6
Less: Financial Aid	(1)	(108.2)	(139.5)	(247.7)	(97.1)	\$ (143.2)	(240.3)
Net Tuition and Fees		425.7	(139.5)	286.2	404.5	(143.2)	261.3
Grants and Contracts - direct	(2)	-	154.8	154.8	-	152.3	152.3
Grants and Contracts - indirect		51.3	-	51.3	50.9	-	50.9
Endowment Distribution	(3)	231.0	455.0	686.0	218.8	424.3	643.1
Other Investment Income	(4)	0.6	3.3	3.9	0.7	3.2	3.9
Current-Use Gifts		35.0	68.3	103.3	38.6	81.9	120.5
Transfers from University - Academic Programs	(5)	26.4	29.0	55.4	22.1	25.6	47.7
Other Income	(6)	53.2	0.2	53.4	48.0	0.1	48.1
Total Revenues (a)		823.2	571.1	1,394.3	783.6	544.2	1,327.8
<b>Expenses</b>							
Salaries and Wages	(7)	279.9	233.4	513.3	256.6	229.1	485.7
Employee Benefits		76.4	57.0	133.4	72.3	56.3	128.6
Fellowships and Awards		21.2	56.9	78.1	19.3	53.9	73.2
Supplies, Materials and Equipment		33.0	38.6	71.6	30.8	39.8	70.6
Operations and Maintenance of Plant	(8)	126.6	43.2	169.8	123.4	39.4	162.8
Principal and Interest on Internal Debt		92.6	0.1	92.7	91.1	0.1	91.2
Transfers to University - University Assessment	(9)	44.0	-	44.0	42.7	-	42.7
Transfers to University - Academic Programs	(10)	19.4	-	19.4	18.8	-	18.8
Services Purchased		105.1	51.5	156.6	102.3	50.9	153.2
Other Expenses	(11)	27.0	41.3	68.3	27.1	41.8	68.9
Total Expenses (b)		825.2	522.0	1,347.2	784.4	511.3	1,295.7
<b>Net Operating Results</b>		(2.0)	49.1	47.1	(0.8)	32.9	32.1
<b>Investment in Plant and Equipment, net (c)</b>	(12)	(36.6)	(28.1)	(64.7)	(111.0)	(18.2)	(129.2)
<b>Net Transfer (to)/from Endowment (d)</b>	(13)	14.1	(11.5)	2.6	50.9	19.2	70.1
<b>Other Changes in Net Assets (e)</b>	(14)	(4.3)	6.4	2.1	12.7	2.6	15.3
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>		<b>(\$28.8)</b>	<b>\$15.9</b>	<b>(\$12.9)</b>	<b>(\$48.2)</b>	<b>\$36.5</b>	<b>(\$11.7)</b>

(in millions)

**Faculty of Arts and Sciences**  
**Core**  
**Managerial Statement of Activity**  
**Fiscal Year Ending June 30, 2016**

	Fiscal Year 2016			Fiscal Year 2015		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>						
Tuition and Fees	\$430.3	-	\$430.3	\$409.9	-	\$409.9
<i>Less: Financial Aid</i>	(99.8)	(131.0)	(230.8)	(89.7)	(135.0)	(224.7)
Net Tuition and Fees	330.5	(131.0)	199.5	320.2	(135.0)	185.2
Grants and Contracts - direct	-	122.6	122.6	-	120.6	120.6
Grants and Contracts - indirect	36.3	-	36.3	37.0	-	37.0
Endowment Distribution	192.7	325.6	518.3	182.9	304.0	486.9
Other Investment Income	0.2	2.2	2.4	0.2	2.3	2.5
Current-Use Gifts	34.3	48.6	82.9	37.8	65.5	103.3
Transfers from University - Academic Programs	12.5	25.4	37.9	9.8	23.8	33.6
Other Income	6.1	1.2	7.3	4.6	0.7	5.3
Total Revenues (a)	612.6	394.6	1,007.2	592.5	381.9	974.4
<b>Expenses</b>						
Salaries and Wages	208.4	166.0	374.4	192.7	164.4	357.1
Employee Benefits	57.1	40.0	97.1	54.6	39.3	93.9
Fellowships and Awards	20.1	52.2	72.3	18.3	49.6	67.9
Supplies, Materials and Equipment	19.0	17.2	36.2	18.0	18.6	36.6
Operations and Maintenance of Plant	101.1	29.0	130.1	96.8	27.0	123.8
Principal and Interest on Internal Debt	85.5	0.1	85.6	84.2	0.1	84.3
Transfers to University - University Assessment	33.6	-	33.6	32.6	-	32.6
Transfers to University - Academic Programs	15.2	-	15.2	15.9	-	15.9
Services Purchased	58.9	32.9	91.8	59.9	31.1	91.0
Other Expenses	8.2	27.6	35.8	10.5	26.7	37.2
Total Expenses (b)	607.1	365.0	972.1	583.5	356.8	940.3
<b>Net Operating Results</b>	5.5	29.6	35.1	9.0	25.1	34.1
<b>Investment in Plant and Equipment, net (c)</b>	(33.1)	(20.5)	(53.6)	(98.6)	(12.5)	(111.1)
<b>Net Transfer (to)/from Endowment (d)</b>	14.1	1.4	15.5	50.9	20.5	71.4
<b>Other Changes in Net Assets (e)</b>	(4.3)	4.8	0.5	9.3	4.7	14.0
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>	(\$17.8)	\$15.3	(\$2.5)	(\$29.4)	\$37.8	\$8.4

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

(in millions)

		June 30	
	<i>note</i>	2016	2015
<b>ASSETS:</b>			
Deposits with the University.....	(15)	\$654.3	\$664.1
Receivables			
Student Receivables .....		4.9	4.6
Other Receivables .....		23.9	28.5
Prepayments and deferred charges.....		20.2	18.2
Notes Receivable .....	(16)	144.5	139.7
Pledges Receivable .....		853.1	895.6
Fixed assets, net of accumulated depreciation .....	(17)	1,870.7	1,831.0
Interests in perpetual trusts held by others .....		93.5	83.1
Long-term investments (primarily endowment).....	(18)	15,230.6	16,096.9
<b>TOTAL ASSETS</b>		<b>18,895.7</b>	<b>19,761.7</b>
<b>LIABILITIES:</b>			
Accrued Expenses .....		21.9	25.9
Deferred Revenue and other liabilities .....		89.5	89.6
Internal Debt Obligations .....	(19)	875.6	875.3
<b>TOTAL LIABILITIES</b>		<b>987.0</b>	<b>990.8</b>
<b>TOTAL NET ASSETS</b>	(20)	<b>17,908.7</b>	<b>18,770.9</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$18,895.7</b>	<b>\$19,761.7</b>

## 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 \$247.7 million in FY16. This is an increase of \$7.4 million or 3.1 percent above FY15. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded almost \$1.6 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased over 114%, from \$80 million in 2005 to more than \$173.3 million in 2016. One in five undergraduate families are not required to contribute to the cost of their child's education, as they have annual incomes of less than \$65,000, and approximately 55 percent of students overall receive financial aid. Harvard College financial aid awards consist of grants only; students are never required to take out loans to cover the cost of their education.

Financial aid presented in the table below excludes \$78.1 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY15 fellowships and awards were \$73.2 million.

*(in millions)*

	<b>FY 2016</b>	<b>FY 2015</b>
Undergraduate	\$173.3	\$170.1
Graduate	63.7	60.5
Continuing Education	10.7	9.7
Total Financial Aid	<b>\$247.7</b>	<b>\$240.3</b>

### 2. GRANTS AND CONTRACTS

FAS grants and contracts increased slightly by 1.4 percent in FY16 to \$206.1 million from \$203.2 million in FY15. Grants and contracts are comprised of the following:

<i>(in millions)</i>	FY 2016			FY 2015		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$32.1	\$15.9	\$48.0	\$30.5	\$15.7	\$46.2
National Science Foundation (NSF)	30.8	13.7	44.5	29.0	13.4	42.3
Department of Defense (DoD)	16.0	6.4	22.5	16.7	6.5	23.2
Other	19.1	9.8	28.9	20.5	9.6	30.1
Subtotal - Federally-Sponsored Research	98.0	45.8	143.8	96.7	45.2	141.9
Non-Federally Sponsored Research	34.9	5.5	40.4	34.2	5.7	39.9
Other Sponsored Awards	21.9	0.0	21.9	21.4	0.0	21.4
<b>Total Sponsored</b>	<b>\$154.8</b>	<b>\$51.3</b>	<b>\$206.1</b>	<b>\$152.3</b>	<b>\$50.9</b>	<b>\$203.2</b>

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., salaries of investigators, lab reagents and research materials). Indirect cost recoveries help to pay for related costs such as facilities, libraries and research administration. Indirect costs for federal projects are ordinarily recovered at a predetermined rate negotiated with the federal government. The negotiated federal rate for the FAS was 69 percent for organized on-campus research in FY16 and FY15. Non-federal sponsors' rates vary. The ratio of indirect costs to direct costs, referred to as the "effective indirect rate" for federally sponsored research in FAS was 46.8 percent in FY16, up slightly from 46.7 percent in FY15. Not all direct research expenses are eligible for indirect cost recovery such as capital equipment, subcontract expenditures and costs related to training grants.

### 3. ENDOWMENT DISTRIBUTION

FAS endowment returns made available for operations increased by \$42.9 million or 6.7 percent, to \$686 million in FY16 from \$643.1 million in FY15. Endowment income represented 49.2 percent of the FAS's total revenues, slightly higher than the FY15 share of 48.4 percent.

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.

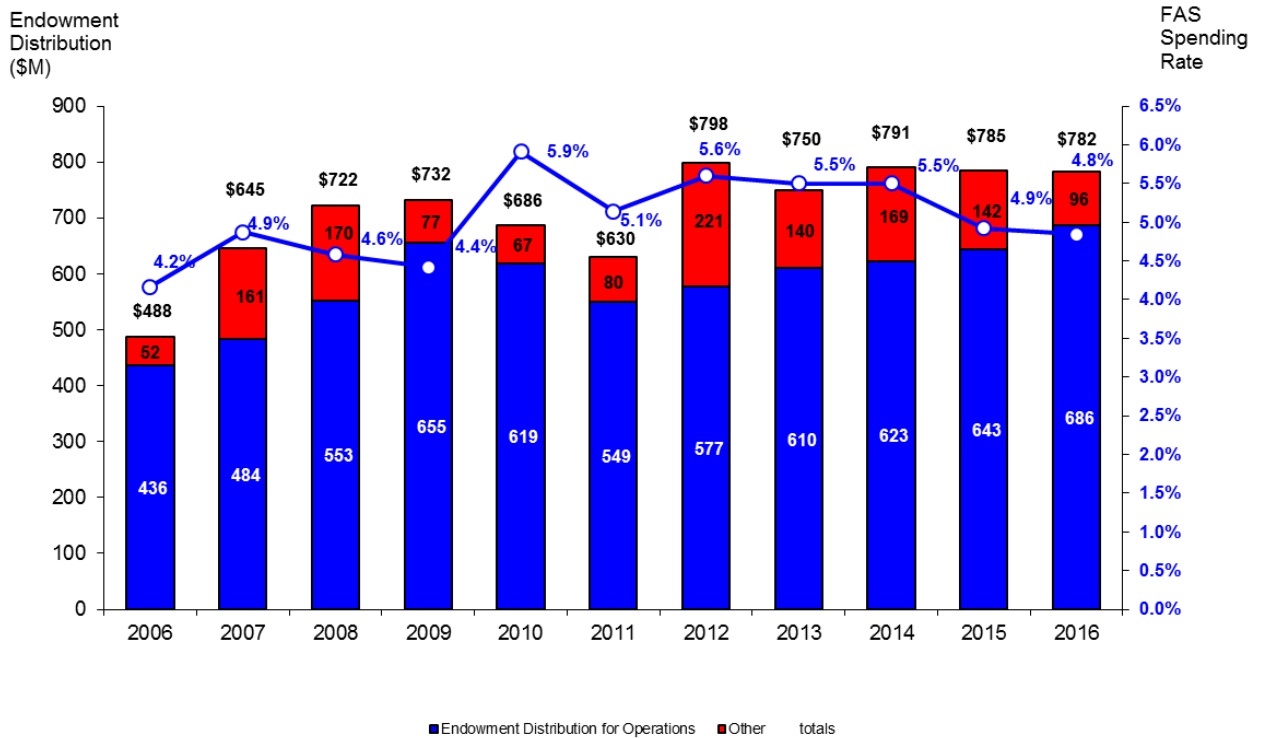
Combining all of the FAS endowment distributions, the aggregate FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 4.8 percent in FY16, slightly down from 4.9 percent in FY15. In FY16 FAS decreased its use of endowment decapitalizations to fund 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 2016	Value	FY 2015	Value
Endowment distribution	\$686.0	4.2%	\$643.1	4.0%
Distribution for Central Administrative Operations	76.2	0.5%	71.5	0.5%
Endowment decapitalizations	20.2	0.1%	70.1	0.4%
Total spending from endowment	<b>\$782.4</b>	<b>4.8%</b>	<b>\$784.7</b>	<b>4.9%</b>

Beginning-of-year endowment market value<sup>1</sup>                      \$16,161.0                      \$15,946.7

<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 FY06.





#### 4. OTHER INVESTMENT INCOME

Other investment income includes interest received on reserves, as well as short-term fund interest income and special investment returns. In FY16 the income received was \$3.9 million. Interest paid on fund balances was 0.08 percent in FY16, compared to 0.11 percent in FY15.

#### 5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY16 the FAS received \$55.4 million in income transfers from the Offices of the President and Provost and other central resources, including funding from the Harvard University Science and Engineering Committee (HUSEC). Of this total, \$30.2 million was related to gifts and endowments held by the University but designated for the FAS for support of professorships, financial aid and academic programs. Another \$11.2 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$16.7 million of net income transfers to and from FAS supported undergraduate and graduate aid, university-wide initiatives that are housed within the FAS. These were offset by a transfer of \$2.75 million from the FAS for the SIS (Student Information System) initiative.

#### 6. OTHER INCOME

FAS Other Income included the following in FY16 and FY15:

<i>(in millions)</i>	<u>FY 2016</u>	<u>FY 2015</u>
Royalty income	\$10.5	\$4.7
Sales of services	9.7	10.1
Rental Income	8.2	7.3
Admissions application fees	5.6	5.2
Program and event income	4.7	6.7
Publication income	0.8	0.9
Miscellaneous income	13.9	13.2
<b>Other Income</b>	<b>\$53.4</b>	<b>\$48.1</b>

Miscellaneous income includes library fees, other fines and fees, interest on mortgages and commissions. Royalty income increased by \$5.8 million in FY16 reflecting a new license agreement. This additional distribution is the first of four the FAS may receive depending upon the success of upcoming clinical trials.

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

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY16 these costs represented 48 percent of total FAS expenses, compared to 47.4 percent in the prior year. At \$646.7 million, this expense was 5.3 percent higher than FY15 spending of \$614.3 million.

The year-over-year increase for salaries and wages was 5.7 percent. The majority of this increase was linked to the annual merit increases for FAS faculty, exempt and union employees averaging 3 percent. The remainder of the increase was the result of personnel transactions including modest position growth, filling of vacant positions, reclassifications and equity adjustments. The benefits component of the total increased by 3.7 percent from the prior year.

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

FAS operations and maintenance expense increased by \$7 million or 4.3 percent, from \$162.8 million in FY15 to \$169.8 million in FY16. At the end of FY16 the FAS campus included 267 owned buildings comprising approximately 10 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$50.6 million); custodial, security and groundskeeping services (\$55.6 million); repairs and maintenance (\$48.4 million); and rental and other fees (net of recoveries) (\$15.2 million). Besides normal inflationary increases, other increases were focused in three areas: (1) House Renewal, where the completion of Dunster House and swing space, coupled with the fact that no House was taken offline in the year of strategic assessment, produced higher costs; (2) acquisition of additional space for the Division of Continuing Education (DCE) for its expanded programs; and (3) construction of additional research computing capacity for the FAS within the Massachusetts Green High Performance Computing Center (MGHPCC) in Holyoke, MA. These additional costs were offset by savings from a mild winter and reduced snow removal costs in FY16 as compared to FY15.

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

The University Assessment pays for services provided to the FAS by the University, including legal services, general accounting, and maintenance of enterprise IT systems. Each Faculty within Harvard University is assessed based on its relative share of expenses. In FY16 the University Assessment increased by 3.0 percent over FY15, from \$42.7 million to \$44.0 million.

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

In FY16 the FAS transferred \$19.4 million to the University for Academic Program Support. Of this total, \$11.4 million was transferred 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 its two-year trailing

salary and wage expense (exclusive of student salaries and salaries bearing overhead). Another \$8.0 million was transferred in FY16 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

In FY15 the FAS transferred \$10.9 million to the Academic Initiatives Fund, and made a \$7.9 million contribution to HUSEC, for a total of \$18.8 million.

## **11. OTHER EXPENSES**

Other expenses decreased by 0.9 percent to \$68.3 million in FY16 from \$68.9 million in FY15. Major cost components in this category include: travel and events costs (\$31 million), telephone and photocopying costs (\$10 million), insurance (\$6.5 million) and postage (\$5.1 million). The balance (\$15.7 million) was 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 \$174.4 million in FY16. Capital expenditures for equipment comprised \$36.3 million of this total. The balance of \$138.1 million was invested in improvements to plant, the largest of which included: \$62.6 million of spending on the House Renewal Program, \$29.6 million for renovations in the Sciences; and \$23.6 million for programmatic and classroom renovations. The balance includes investments in existing plant, renewal and life safety projects in the College residential houses, and other capital renewal projects.

Funding for capital spending in FY16 and FY15 came from the following sources:

<i>(in millions)</i>	<u>FY 2016</u>	<u>FY 2015</u>
Total capital spending	(\$174.4)	(\$258.6)
Less: debt proceeds	58.1	51.5
Less: construction gifts	80.8	39.1
Less: funds designated for Construction in Progress/Other	<u>(29.2)</u>	<u>38.8</u>
<b>Investment in plant and equipment, net</b>	<b><u>(\$64.7)</u></b>	<b><u>(\$129.2)</u></b>

In addition to debt proceeds and construction gifts, the FAS spent \$30.2 million for capital projects in FY16. Of this total, \$18.5 million came from reserves held by the FAS Dean, Dumbarton Oaks, SEAS, the Division of Continuing Education and Library, another \$4.4 million was made available through a combination of endowment distributions and decapitalizations, and \$7.3 million was provided through current use gifts and sponsored funds. The \$36.3 million of equipment spending was funded through operating funds and debt.

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

Net transfer (to) / from endowment represent changes in the endowment funds 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 FY16 the FAS withdrew an additional \$2.6 million from the endowment, representing endowment decapitalizations net of capitalizations. The equivalent figure in FY15 was \$70.1 million. The decreased withdrawal in FY16 reflects reduced funding needed for House Renewal-related construction costs during the year of strategic assessment.

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

Other changes in net assets in FY16 totaled \$2.1 million. This amount included \$8 million of distributions from split interest agreements and other changes of \$0.3 million, offset by a \$6.2 million paydown of debt related to Winthrop House's renovations.

In FY15 other changes in net assets of \$15.3 million were primarily made up of distributions from split interest agreements.

## NOTES TO BALANCE SHEET

### 15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other General Operating Account (GOA) balances. 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.

On June 30, 2016, deposits were \$654.3 million, down \$9.8 million from \$664.1 million in the prior year. This decrease was a result of capitalizations of fund balances to the endowment at Dumbarton Oaks and the School of Engineering and Applied Sciences, the application of construction gifts held at the end of FY15, and funding for the current year deficit.

### 16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2016 and 2015 were as follows:

<i>(in millions)</i>	<u>FY 2016</u>	<u>FY 2015</u>
Student Notes Receivable:		
University Loan Program	\$33.1	\$32.7
Faculty and Staff	<u>111.5</u>	<u>107.0</u>
<b>Total Notes Receivable</b>	<b><u>\$144.5</u></b>	<b><u>\$139.7</u></b>

Faculty and staff notes receivable are primarily mortgages and educational loans. Mortgages include shared appreciation loans, loans that bear interest at the Applicable Federal Rate (AFR), and zero-interest loans. 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. In addition to FY16 capital spending as noted in footnote 12, assets may increase or decrease through acquisitions, sales or impairments.

The table below summarizes FAS assets as of June 30, 2016 and 2015:

<i>(in millions)</i>	<b>FY 2016</b>	<b>FY 2015</b>
Research facilities	\$1,210.5	\$1,175.7
Classrooms and offices	476.1	462.3
Housing facilities	671.1	525.9
Libraries	212.0	207.0
Museums and assembly facilities	152.1	146.5
Athletic facilities	157.5	155.0
Service facilities	20.3	20.5
Capital leasehold improvements	164.3	164.7
Land	5.6	5.6
Construction in Progress	120.1	209.4
Equipment	388.2	361.6
Total fixed assets at cost	<u>3,577.8</u>	<u>3,434.2</u>
Less: accumulated depreciation	<u>(1,707.11)</u>	<u>(1,603.16)</u>
<b>Total fixed assets, net</b>	<b><u>\$1,870.7</u></b>	<b><u>\$1,831.0</u></b>

In FY16 the largest increase in the FAS Physical Plant was in housing facilities, reflecting the completion of Dunster House in the beginning of Academic Year 2015-2016.

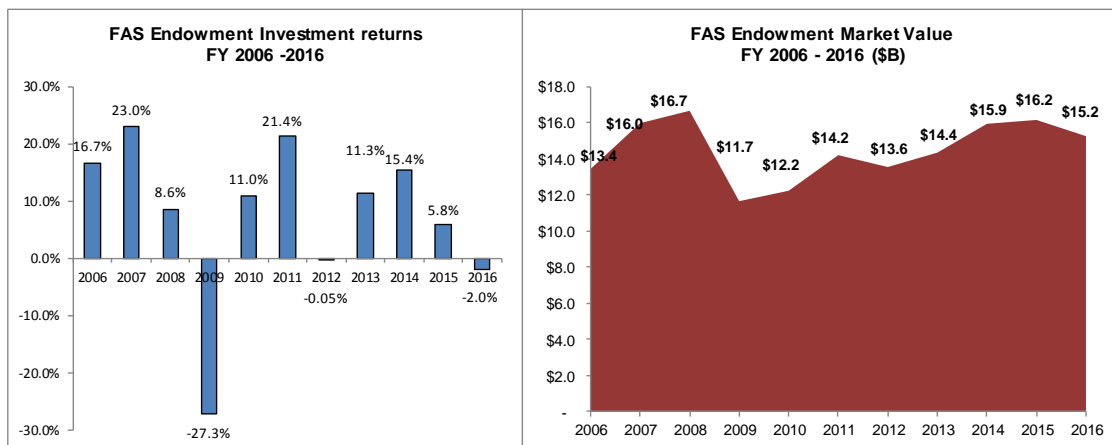
## 18. LONG-TERM INVESTMENTS (PRIMARYLY ENDOWMENT)

The FAS's investments, primarily endowment, totaled \$15.2 billion at FY16 year end. The market value of these investments decreased by \$.9 billion, or 5.4 percent, from June 30, 2015. This change was primarily driven by the combination of market returns of -2.0% percent and the funding of the annual FY16 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). Included in the General Operating Account Investments was the FAS investment in the Giant Magellan Telescope (GMT).

The table below summarizes the FAS's long-term investments as of June 30, 2016 and 2015:

<i>(in millions)</i>	<b>FY 2016</b>	<b>FY 2015</b>
Endowment investments	\$15,205.1	\$16,072.0
Gift fund investments	1.5	0.9
General Operating Account investments	24.0	24.0
<b>Total Long term investments</b>	<b>\$15,230.6</b>	<b>\$16,096.9</b>

The charts below summarize the FAS endowment market value over the past ten years from FY06 through FY16:



(1) The 6/30/16 FAS endowment market value of \$15.3 billion includes endowment investments of \$15.2 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 6/30/16 is \$16.0 billion.

## 19. INTERNAL DEBT OBLIGATIONS

At the end of FY16 the FAS's outstanding debt was \$875.6 million, \$.3 million (.03 percent) more than in FY15.

<i>(in millions)</i>	<b>FY 2016</b>	<b>FY 2015</b>
Long-Term Debt	\$764.1	\$768.3
Faculty Loans	111.5	107.0
<b>Total Debt and Notes Payable</b>	<b>\$875.6</b>	<b>\$875.3</b>

Changes in long-term debt reflect new borrowings, principal payments and paydown of debt on retired plant assets. In FY16 the FAS long-term debt portfolio decreased by \$4.2 million. This decrease was due to a paydown of \$6.2 million in debt on retired assets related to Winthrop House's renovations, offset by a net \$2 million additional debt reflecting FAS's ongoing practice of limiting new debt obligations by matching new debt to principal payments.

## 20. TOTAL NET ASSETS

Total 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 is used to manage 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 6,500 restricted endowment funds and over 2,300 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.