

**Financial Report of
The Faculty of Arts and Sciences
Fiscal Year 2022**



FY22 Financial Results

This report presents the Faculty of Arts and Sciences' (FAS) financial results for the fiscal year ending June 30, 2022. This narrative does not include financial results for the John A. Paulson School of Engineering and Applied Sciences (SEAS). For consolidated results of FAS and SEAS, please see the Faculty of Arts and Sciences Financial Report Appendix, which includes the operating results in both the Balance Sheet and the Modified Generally Accepted Accounting Principles (GAAP) and Management, or cash, views for the Faculty of Arts and Sciences (which includes SEAS).

The Year in Review

In Fiscal Year 2022, the Faculty of Arts and Sciences welcomed students back to residential education following two years of reduced campus access necessitated by the COVID pandemic. In-person classes, House life, student research, athletics, and activities resumed. And Harvard celebrated, as we hosted in-person commencements for the classes of 2020, 2021, and 2022.

As students returned to campus, so too did revenue from tuition, board, and lodging, which increased \$114 million from 2021. Income from past and current philanthropy is the largest source of revenue for the Faculty of Arts and Sciences, and the generosity and partnership of alumni and donors enables the FAS's commitment to excellence in teaching and research and to removing barriers to a Harvard education. Despite modest declines in current use giving, income from the endowment and current use gifts together grew \$19 million from last year and constitute 60% of FAS's total revenues. Current-use gifts, which grew by a compound annual growth rate (CAGR) of 7.6% from Fiscal Year 2019 to 2022, were critical to sustaining FAS operations during the pandemic period.

With our campus returned to more normal operations, programmatic expenses returned as well, with non-compensation expenses increasing by \$105 million from 2021. This was offset somewhat by an \$11 million decline in employee compensation costs, as the number of employees was reduced following a 2020 voluntary early retirement program and slow hiring due to a tight labor market.

Careful management of expenses allowed the FAS to continue to make strategic investments. We accelerated faculty hiring, including a successful cluster search in Ethnicity, Indigeneity and Migration. We [significantly expanded the Harvard Financial Aid Initiative \(HFAI\)](#) for low- and middle-income families. Beginning with the class of 2026, the cost to attend Harvard College is free for families with annual incomes below \$75,000. We made targeted investments in audio-visual equipment in some spaces and Wifi connectivity across our campus to enable hybrid work and teaching. Additionally, we created a Community Renewal Fund that provided resources for scholarly and social events to bring our faculty, students, staff and researchers together again.

The overall result of increased revenue from student tuition, room, and board as well as increased revenue from philanthropy, combined with carefully managed growth in expenses, was a surplus of \$69 million, leaving the Faculty of Arts and Sciences in a relatively healthy position at the end of Fiscal Year 2022, and raising FAS reserves above the University recommended benchmark of 10% of operating expenses for the first time. These reserves are an investment in the future of FAS – representing both a source of stabilization in the event of an economic downturn and a source of funding for future investments.

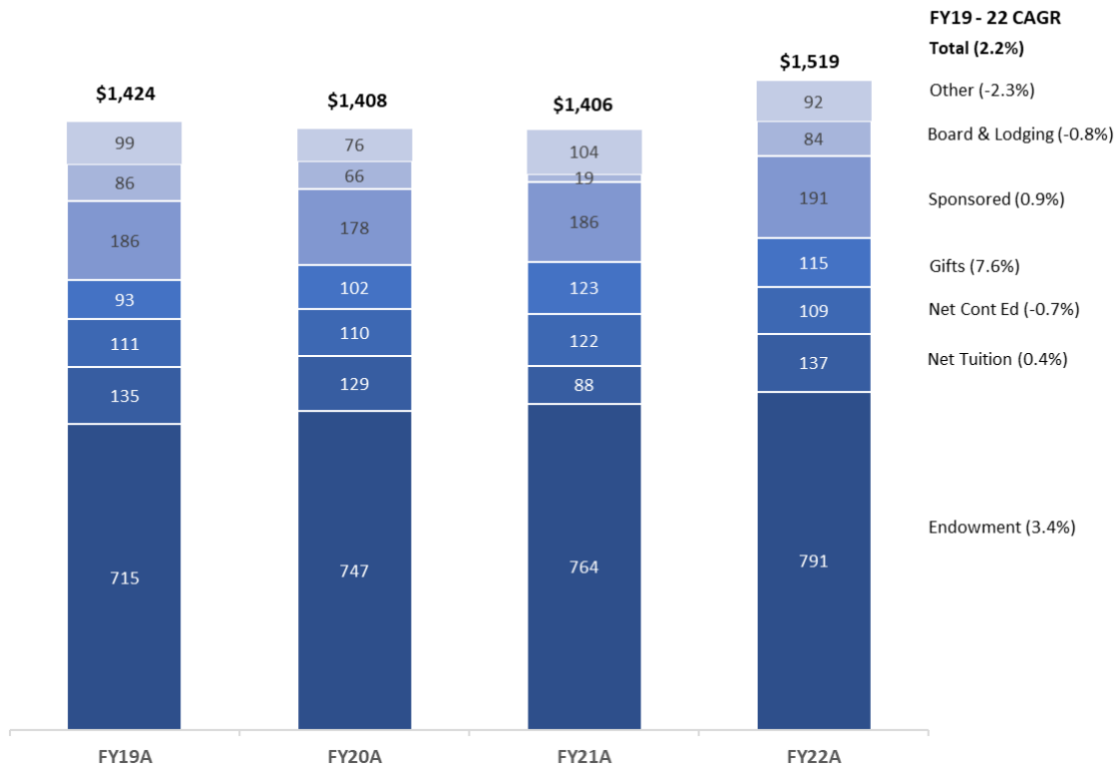
Summary of Revenues

Total revenues in Fiscal Year 2022 were \$1.519 billion, and for the first time exceeded Fiscal Year 2019 revenues, the last year before the pandemic. Overall growth in revenue has been modest, with a compound annual growth rate of 2.2% since 2019.

Tuition, Board, and Lodging

As students returned to campus, and some students returned from leaves and deferrals during the pandemic period, Harvard College experienced a swell in enrollments, with undergraduate enrollment increasing by 1,716 from Fiscal Year 2021 to 2022. The swell in enrollment resulted in an increase in net tuition of \$49 million and an increase in board and lodging of \$65 million for a total increase in student revenue of \$114 million. While the return to campus resulted in this substantial increase over the prior year, the longer-term trend is flat, with a compound annual growth rate from Fiscal Year 2019 to 2022 of 0.4% for net tuition, and a decline of 0.8% for board and lodging. This is a result of modest increases in tuition rates offset by increases in financial aid.

Revenues for FY19-FY22¹



Philanthropy

The Faculty of Arts and Sciences depends on philanthropy for 60% of our operating revenue. Distributions from endowments as well as flexible current use gifts - support with the greatest immediate impact – are critical to the FAS mission. Fueled by the generosity of our alumni, parents, and friends and buoyed by a 33.4% return on the Harvard endowment a year ago, endowment distributions to the FAS increased by \$27 million last year and have grown by \$76 million since Fiscal Year 2019. Of the \$115M in current-use gifts received in FY22, over \$42 million were fully unrestricted gifts. Since 2019, this important source of support has grown at a cumulative annual growth rate of 11.9%.

Sponsored Research

Faculty of Arts and Sciences researchers continued to succeed in attracting grants as sponsored revenues grew in Fiscal Year 2022 from \$186 million to \$191 million, an increase of 2.7%. Since 2019, growth has been more modest, with a compound annual growth rate of 0.9%.

¹Net tuition is net of financial aid totaling \$294 million.

Continuing Education

Net revenue from the Division of Continuing Education (DCE) increased by 11% in Fiscal Year 2021, as students took advantage of DCE’s on-line learning platform. In Fiscal Year 2022 as in-person operations resumed, continuing education revenues returned to a level similar to pre-pandemic, declining \$13 million from 2021, and with a CAGR of -0.7%.

Summary of Expenses

Expenses in Fiscal Year 2022 totaled \$1.450 billion, an increase of \$94 million from last year, as campus operations returned to a more normal level. Since 2019, the compound annual growth rate has been modest, at 1.1%.

Expenses FY19-FY22²



² In addition to the \$294 million in financial aid offered to students that defray the cost of attendance, an additional \$80 million in fellowship support was dispersed in FY22, primarily to graduate students. These funds help students pay for research needs such as travel, language studies and other necessities of an academic program.

Compensation

Compensation -- salaries, wages, and benefits -- is the Faculty of Arts and Sciences' largest expense, comprising 45% of the total. In Fiscal Year 2022, compensation totaled \$651 million, which was 1.7% less than 2021, and up just \$2 million or 0.3% from 2019, on a compound annual average basis. The key contributors to the lack of growth in overall salaries and benefits, and offsetting underlying salary increases, were the overhang of the voluntary early retirement program in 2020, and a high vacancy rate due to difficulties in hiring people in the current labor market. Additionally, as employees' utilization of benefits decreased during the pandemic, the cost of benefits decreased 3.9% from last year.

Non-Compensation Expenses

Non-compensation expenses, including expenses for space and occupancy, supplies and equipment, and services purchased, increased \$105 million or 15% over Fiscal Year 2021 as programmatic activities resumed on campus. Included in this increase were \$16 million of COVID-related expenses for testing, masks, air filtration, and rental of isolation housing. Overall, non-compensation expenses have grown an average of 1.9% since 2019.

Net Results

Overall, in Fiscal Year 2022 revenues totaled \$1.519 billion, and expenses totaled \$1.450 billion, for a surplus of \$69 million following Generally Accepted Accounting Principles. On a cash basis, the surplus was \$99 million. Of that amount, \$71.8 million was added to the Dean's unrestricted reserves which brings FAS unrestricted reserves to 10% of annual operating expense for the first time. The remaining fund balances were added to restricted endowment, gift and sponsored reserve accounts. These reserves will provide the FAS resilience, as we enter a period of lower endowment returns and higher inflation, and resources as we continue to support our faculty and students at the highest levels.

Net Surplus (Deficit), FY19-FY22



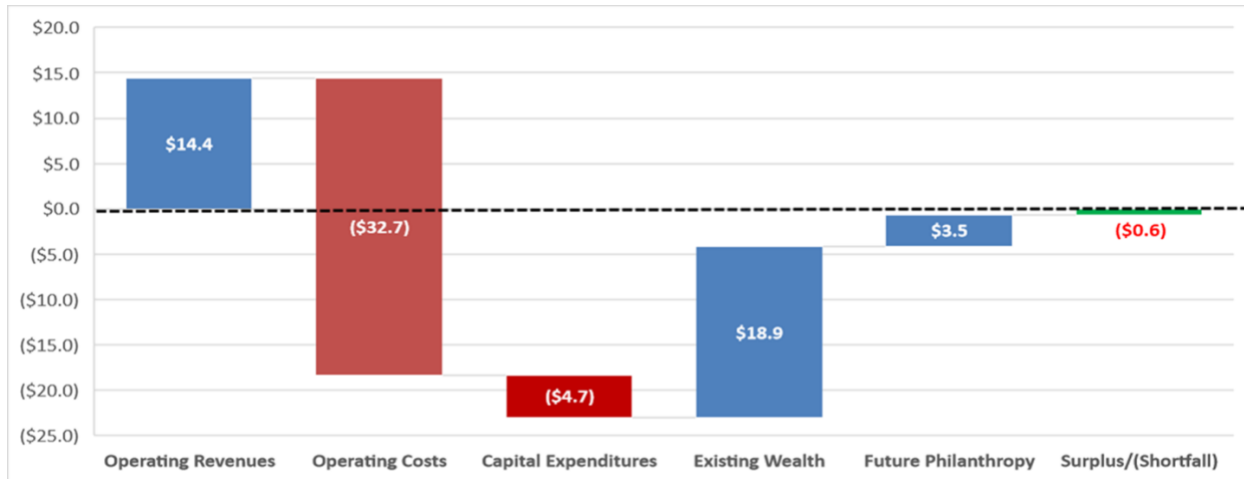
Long-term Structural Balance

In 2021, the Faculty of Arts and Sciences adopted a new financial model to understand our long-term financial condition. This model, called the Economic Budgeting Model, was developed in partnership with the FAS Study Group [include link]. The model takes into account long-term estimates of revenue from net tuition, philanthropy, and other sources, and measures them against estimates of the FAS’s operating expense, primarily our compensation costs and the cost of maintaining our physical assets.

When the model was first developed last year, it showed a net structural deficit of \$1.8 billion, or an annualized deficit of \$90 million. At the end of Fiscal Year 2022, updating our assumptions to include the 33.4% return on endowment for 2021 as well as then-current inflation assumptions, the deficit narrowed to \$600 million, or \$30 million annualized— a substantial improvement, which emphasizes the degree to which the FAS is sensitive to fluctuations in the endowment.

Since the last update, the Harvard Management Company announced a Fiscal Year 2022 return of -1.8% on the endowment. This news, combined with higher and more prolonged inflation than originally estimated, will result in a larger structural deficit estimate when the model is rerun later this year.

Economic Budgeting Model Results, June 2022



The Economic Budgeting Model is useful in grounding planning in good long-run strategic choices while reducing the impact of short-term volatility and accounting treatment. Although the future is uncertain due to market volatility and inflation, this tool will help the FAS to plan for long-term sustainability.

Reflection on Fiscal Year 2022 and Beyond

Fiscal Year 2022 was a remarkable year, when the FAS welcomed our students, faculty, staff, and researchers to resume the full residential teaching, learning, and research mission of Harvard. As students returned, the accompanying increase in tuition revenue, combined with growth in revenue from philanthropy and very modest growth in expenses, resulted in a budgetary surplus for the Faculty of Arts and Sciences. This surplus leaves the FAS with reserves above 10% of annual operating expenses for the first time.

The Faculty of Arts and Sciences is in a healthier condition than the recent past, thanks to careful management of resources by the FAS community, and last year's strong endowment returns. This fiscal health will provide resilience, as we face uncertainty in the future, but more importantly, resources, as we make strategic decisions to advance our mission.

Our fiscal health is driven by things outside our control, such as endowment returns and inflation, and things within our control, such as fundraising, operating costs, continuing education enrollments, and management of our funds. Informed by our Economic Budgeting Model, we will focus on those things within our control, and continue to manage toward long-term fiscal sustainability in support of our academic mission and ambitions for the Faculty of Arts and Sciences.

APPENDIX

FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2022

HARVARD UNIVERSITY

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(in millions)

Faculty of Arts and Sciences
Consolidated
Modified GAAP Statement of Activity
Fiscal Year Ending June 30, 2022

	<u>Fiscal Year 2022</u>	<u>Fiscal Year 2021</u>
Revenues		
Tuition and Fees	\$ 652.5	\$ 496.0
<i>Less: Financial Aid</i>	<u>(317.0)</u>	<u>(263.2)</u>
Net Tuition and Fees	335.5	232.8
Grants and Contracts - direct	196.8	187.8
Grants and Contracts - indirect	64.2	61.0
Endowment Distribution	850.8	821.1
Other Investment Income	7.0	14.3
Current-Use Gifts	122.2	130.0
Transfers from University - Academic Programs	63.1	77.7
Other Income	76.7	42.3
Income Reclasses ⁽ⁱ⁾	<u>(17.8)</u>	<u>(3.9)</u>
Total Revenues	1,698.5	1,563.0
Expenses		
Salaries and Wages	592.4	594.2
Employee Benefits	151.6	158.2
Fellowships and Awards	84.1	80.9
Supplies, Materials and Equipment	72.7	56.5
Operations and Maintenance of Plant	209.4	176.5
Principal and Interest on Internal Debt	45.7	45.4
Depreciation Expense	139.1	140.0
Transfers to University - University Assessment	47.2	47.3
Transfers to University - Academic Programs	17.8	3.9
Services Purchased	217.3	179.0
Other Expenses	54.1	33.8
Expense Reclasses ⁽ⁱ⁾	<u>(17.8)</u>	<u>(3.9)</u>
Total Expenses	1,613.6	1,511.7
Net Operating Results	<u>\$ 84.9</u>	<u>\$ 51.3</u>

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

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(in millions)

Faculty of Arts and Sciences
Consolidated
Statement of Activity
Fiscal Year Ending June 30, 2022

	Fiscal Year 2022			Fiscal Year 2021			
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	
Revenues							
Tuition and Fees	\$ 652.5	\$ -	\$ 652.5	\$ 496.0	\$ -	\$ 496.0	
<i>Less: Financial Aid</i>	(1)	(127.9)	(317.0)	(81.2)	(182.0)	(263.2)	
Net Tuition and Fees	524.6	(189.1)	335.5	414.8	(182.0)	232.8	
Grants and Contracts - direct	(2)	-	196.8	-	187.8	187.8	
Grants and Contracts - indirect	(2)	64.2	-	61.0	-	61.0	
Endowment Distribution	(3)	319.9	530.9	330.1	491.0	821.1	
Other Investment Income	(4)	1.0	6.0	3.2	11.1	14.3	
Current-Use Gifts		43.3	78.9	45.2	84.8	130.0	
Transfers from University - Academic Programs	(5)	28.2	34.9	44.4	33.3	77.7	
Other Income	(6)	77.2	(0.5)	42.7	(0.5)	42.2	
Total Revenues (a)		1,058.4	657.9	941.4	625.5	1,566.9	
Expenses							
Salaries and Wages	(7)	327.1	265.3	321.7	272.5	594.2	
Employee Benefits		88.5	63.1	91.0	67.2	158.2	
Fellowships and Awards		24.8	59.3	25.9	55.0	80.9	
Supplies, Materials and Equipment		33.1	39.6	24.4	32.0	56.4	
Operations and Maintenance of Plant	(8)	161.8	47.6	132.8	43.7	176.5	
Principal and Interest on Internal Debt		136.6	0.1	131.4	0.1	131.5	
Transfers to University - University Assessment	(9)	47.2	-	47.3	-	47.3	
Transfers to University - Academic Programs	(10)	17.8	-	3.9	-	3.9	
Services Purchased		147.9	69.4	120.6	58.4	179.0	
Other Expenses	(11)	18.2	35.9	11.0	22.8	33.8	
Total Expenses (b)		1,003.0	580.3	910.0	551.7	1,461.7	
Net Operating Results		55.4	77.6	31.4	73.8	105.2	
Investment in Plant and Equipment, net (c)	(12)	(25.4)	(35.9)	(27.1)	(20.7)	(47.8)	
Net Transfer (to)/from Endowment (d)	(13)	2.0	(4.6)	1.3	(7.3)	(6.0)	
Other Changes in Net Assets (e)	(14)	43.4	1.2	75.2	4.5	79.7	
Net Change in Fiscal Year Activity (a-b+c+d+e)		\$ 75.4	\$ 38.3	\$ 113.7	\$ 80.8	\$ 50.3	\$ 131.1

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Core
Statement of Activity
Fiscal Year Ending June 30, 2022

	<u>Fiscal Year 2022</u>			<u>Fiscal Year 2021</u>		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 515.6	\$ -	\$ 515.6	\$ 348.5	\$ -	\$ 348.5
<i>Less: Financial Aid</i>	(116.1)	(177.7)	(293.8)	(69.0)	(171.3)	(240.3)
Net Tuition and Fees	399.5	(177.7)	221.8	279.5	(171.3)	108.2
Grants and Contracts - direct	-	144.2	144.2	-	142.5	142.5
Grants and Contracts - indirect	42.1	-	42.1	40.4	-	40.4
Endowment Distribution	240.1	399.7	639.8	253.6	369.3	622.9
Other Investment Income	0.3	4.5	4.8	1.8	8.6	10.4
Current-Use Gifts	41.8	65.1	106.9	44.9	71.8	116.7
Transfers from University - Academic Programs	12.6	32.9	45.5	27.9	29.9	57.8
Other Income	22.4	(3.1)	19.3	9.8	0.3	10.1
Total Revenues (a)	758.8	465.6	1,224.4	657.9	451.1	1,109.0
Expenses						
Salaries and Wages	220.3	196.4	416.7	217.7	205.8	423.5
Employee Benefits	59.9	45.7	105.6	59.5	48.9	108.4
Fellowships and Awards	22.5	54.8	77.3	24.3	51.0	75.3
Supplies, Materials and Equipment	19.6	16.2	35.8	15.2	14.2	29.4
Operations and Maintenance of Plant	116.9	31.7	148.6	100.3	29.5	129.8
Principal and Interest on Internal Debt	128.2	0.1	128.3	123.3	0.1	123.4
Transfers to University - University Assessment	35.6	-	35.6	35.5	-	35.5
Transfers to University - Academic Programs	13.7	-	13.7	3.6	-	3.6
Services Purchased	95.7	47.9	143.6	70.1	37.3	107.4
Other Expenses	1.0	23.3	24.3	1.3	14.8	16.1
Total Expenses (b)	713.4	416.1	1,129.5	650.8	401.6	1,052.4
Net Operating Results	45.4	49.5	94.9	7.1	49.5	56.6
Investment in Plant and Equipment, net (c)	(12.4)	(15.9)	(28.3)	(9.4)	(14.5)	(23.9)
Net Transfer (to)/from Endowment (d)	1.9	(7.4)	(5.5)	1.2	(3.2)	(2.0)
Other Changes in Net Assets (e)	42.7	1.9	44.6	68.8	3.7	72.5
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ 77.6	\$ 28.1	\$ 105.7	\$ 67.7	\$ 35.5	\$ 103.2

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

		June 30	
		2022	2021
ASSETS:			
Deposits with the University.....	(15)	\$ 1,383.4	\$ 1,123.6
Receivables			
Student Receivables		6.1	5.0
Other Receivables		35.8	28.9
Prepayments and deferred charges.....		15.0	14.9
Operating leases right of use		142.7	136.2
Notes Receivable	(16)	166.5	158.4
Pledges Receivable		711.3	773.5
Fixed assets, net of accumulated depreciation	(17)	2,261.7	2,246.3
Interests in perpetual trusts held by others		107.5	126.2
Long-term investments (primarily endowment).....	(18)	21,784.9	23,039.4
TOTAL ASSETS		\$ 26,614.9	\$ 27,652.4
LIABILITIES			
Accrued Expenses		17.4	0.8
Operating Lease Liabilities		142.7	136.2
Deferred Revenue and other liabilities		79.4	92.7
Internal Debt Obligations	(19)	1,424.5	1,356.5
TOTAL LIABILITIES		1,664.0	1,586.2
TOTAL NET ASSETS	(20)	24,950.9	26,066.2
TOTAL LIABILITIES AND NET ASSETS		\$ 26,614.9	\$ 27,652.4

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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 \$317.0 million in FY22. This increase of \$53.8 million or 20.4 percent from FY21 is due to returning students to campus. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded over \$2.8 billion in grant aid to undergraduates, and the undergraduates financial aid award budget has increased nearly 200%, from \$80 million in 2005 to \$235.1 million in 2022. About 22% of undergraduates families are not required to contribute to the cost of their child's education, as they have annual incomes of less than \$75,000, and approximately 55 percent of undergraduate students receive financial aid. Harvard College financial aid awards consist of grants; students are never required to take out loans to cover the cost of their education, although they are expected to contribute through term-time work.

Financial aid presented in the table below excludes \$84.1 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY21 fellowships and awards were \$80.9 million.

(in millions)

	<u>FY 2022</u>	<u>FY 2021</u>
Undergraduate	\$ 235.1	\$ 173.7
Graduate	69.3	76.2
Continuing Education	<u>12.6</u>	<u>13.3</u>
Total Financial Aid	<u>\$ 317.0</u>	<u>\$ 263.2</u>

2. GRANTS AND CONTRACTS

FAS grants and contracts have increased by 4.9 percent in FY22 to \$261.0 million from \$248.8 million in FY21. Grants and contracts are comprised of the following:

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(in millions)

	FY 2022		
	Direct	Indirect	Total
Federally Sponsored Research			
National Institutes of Health (NIH)	\$ 39.2	\$ 20.6	\$ 59.8
National Science Foundation (NSF)	32.1	14.6	46.7
Department of Defense (DoD)	24.2	8.6	32.8
Other	22.2	9.8	32.0
Subtotal - Federally Sponsored Research	117.7	53.6	171.3
Non-federally Sponsored Research	56.7	10.6	67.3
Other Sponsored	22.4	0.0	22.4
Total Sponsored	\$ 196.8	\$ 64.2	\$ 261.0

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 69.0 percent for organized on-campus research in FY22 and FY21. 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 percent in FY22, slightly down from 47 percent in FY21. 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 \$29.7 million or 3.6 percent, to \$850.8 million in FY22 from \$821.1 million in FY21. The increase above the budgeted 2.5 percent increase over FY21 distributions is related to new fundraising and campaign pledge payments. Endowment income represented 49.6 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.

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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) decreased from 5.1 percent in FY21 to 4.2 percent in FY22.

Details of the endowment payout rate are shown in the table below:

Endowment Spend Rate

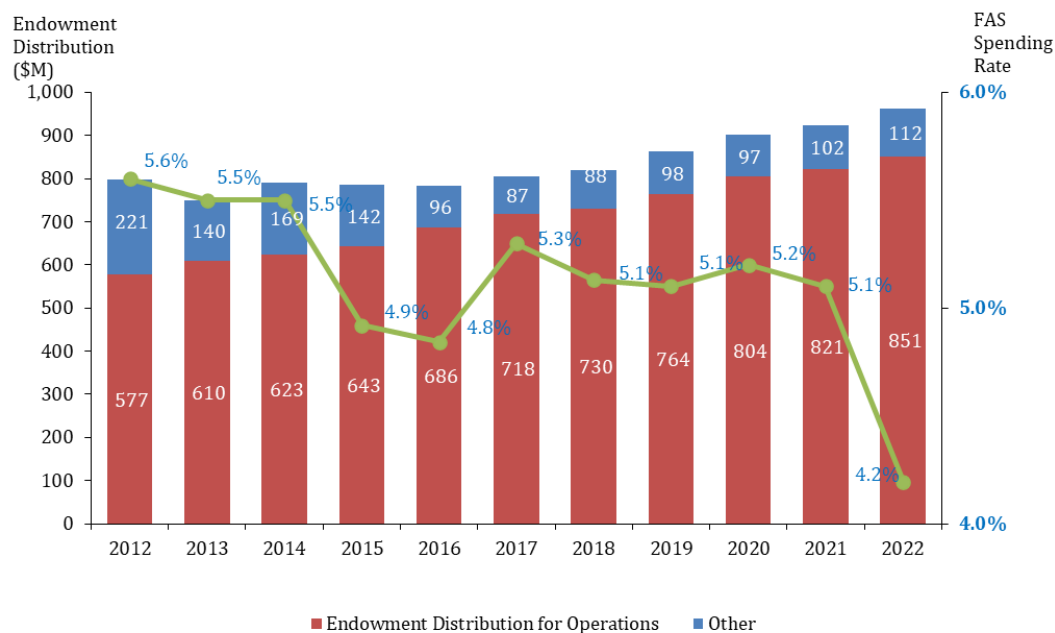
(in millions)

	FY 2022		FY 2021	
	Value	% of Market Value	Value	% of Market Value
Endowment distribution	\$ 850.8	3.7%	\$ 821.1	4.6%
Distribution for Central Administrative Operations	94.5	0.4%	91.2	0.5%
Federal NII Tax - GIA ¹	10.0	0.0%	7.5	0.0%
Endowment decapitalizations	7.1	0.0%	3.4	0.0%
Total payout from endowment	\$ 962.4	4.2%	\$ 923.2	5.1%
Beginning-of-year endowment market value ²	\$ 22,941.5		\$ 17,934.2	

¹ 1.4 percent excise tax on the net investment income of private colleges and universities

² Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY12.



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4. OTHER INVESTMENT INCOME

Other investment income includes interest received on reserves, as well as short-term loan fund interest income and special investment returns. The FY22 income received was \$7.0 million compared to the \$14 million in FY21. The decline is due to a significant decrease in interest rate paid on fund balances, the rate has decreased in the last two years, from 2.1 percent in FY20 to 1.25 percent in FY21 and to 0.1 percent in FY22.

5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY22 the FAS received \$63.1 million in income transfers from the Offices of the President and Provost and other University resources. Of this total, \$31.5 million was related to gifts and endowments held by the University but designated for the FAS in support of professorships, financial aid and academic programs. Another \$10.1 million of University support was directed to the Harvard College Library, which benefits the FAS and the University; and \$21.5 million of net income transfers to and from FAS for faculty research, financial aid, and University-wide initiatives that are housed within the FAS.

6. OTHER INCOME

FAS Other Income included the following in FY22 and FY21:

(in millions)

	<u>FY 2022</u>		<u>FY 2021</u>
Royalty income	\$ 42.7	\$	15.8
Sales of services	10.3		6.3
Rental Income	6.2		4.7
Admissions application fees	4.4		4.4
Miscellaneous income	13.1		11.0
Other Income	<u>\$ 76.7</u>	<u>\$</u>	<u>42.2</u>

FY22 Other Income increased 82 percent - a combination of 170 percent increase in Royalty income and a 29 percent increase from programs, events and sales due to University programs and activities coming back after COVID-19 health emergency. Miscellaneous income includes library fees, other fines and fees, interest on mortgages and commissions.

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7. SALARIES, WAGES AND BENEFITS

Salaries, wages, and benefits are the largest component of the FAS's expenses. In FY22 these costs represented 47.0 percent of total FAS expenses, compared to 51.5 percent in the prior year. The total of \$744.0 million was \$8.4 million or 1.1 percent less than FY21 spending of \$752.4 million.

The annual merit increases for FAS union employees was 3.3 percent. FAS Faculty and exempt employees received an annual merit increase of 2.5 percent in FY22. The benefits component of the total year-over-year change decreased 4.2 percent from the prior year.

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

FAS operations and maintenance expense increased by \$32.9 million or 18.6 percent, from \$176.5 million in FY21 to \$209.4 million in FY22. At the end of FY22 the FAS campus included 266 owned buildings comprising approximately 10.1 million gross square feet. Operations and maintenance of plant includes custodial, security and grounds keeping services (\$70.5 million); the cost of utilities (\$61.3 million); repairs and maintenance (\$58.5 million); and rental and other fees, net of recoveries (\$19.1 million). The main driver for the overall increase is related to the campus shutdown due to COVID-19 in FY21 and a return to a fully-residential campus in FY22.

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 trailing three-year total expenses. (i.e., FY19-FY21 average for the FY22 Assessment). The University Assessment decreased by 0.2 percent, from \$47.3 million in FY21 to \$47.2 million in FY22.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY22 the FAS transferred \$17.8 million to the University for Academic Program Support. Of this total, \$13.3 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 \$4.5 million was transferred in FY22 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

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In FY21, the Academic Initiatives Fund was suspended and the FAS made a \$3.9 million contribution to HUSEC.

11. OTHER EXPENSES

Other expenses increased by 60.1 percent from \$33.8 million in FY21 to \$54.1 million in FY22. Major cost components in this category include: travel and entertainment (\$15.5 million), other institutional activity (\$8.7 million), insurance and losses (\$4.7 million) and taxes, fees, and licenses (\$4.5 million). The balance (\$20.7 million) was made up of other 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 \$174.5 million or a 33 percent increase from prior year due to curtailed capital spending in FY21 due to COVID-19. Of that, capital expenditures for equipment comprised \$29.1 million of this total. The balance of \$145.4 million was invested in improvements to plant: \$46.4 million for the House Renewal Program and \$66.0 million investment in various capital renewal, maintenance and faculty projects across all FAS schools.

Funding for capital spending in FY22 and FY21 came from the following sources:

(in millions)

	<u>FY2022</u>	<u>Fy2021</u>
Total Capital Spending	\$ (174.5)	\$ (131.1)
Less: Debt Proceeds	102.3	65.2
Less: Construction Gifts	34.8	13.7
Less: Funds Designated for Construction/ Other	<u>(23.9)</u>	<u>4.4</u>
Investment in Plant and Equipment, net	<u>\$ (61.3)</u>	<u>\$ (47.8)</u>

FAS spent \$61.3 million of operating funds for capital projects and equipment; of that \$30.1 million was spent on equipment for faculty research.

13. NET TRANSFER (TO) / FROM ENDOWMENT

Net transfer (to) / from endowment represents changes in the endowment funds related to endowment capitalizations of unexpended balances and decapitalizations. Endowment

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decapitalizations occur on funds where the donor or the Corporation has approved spending beyond the annual spending rate to meet programmatic goals.

In FY22 the FAS returned \$2.6 million to the endowment, representing endowment capitalizations net of decapitalizations. The equivalent figure in FY21 was \$6.0 million. The change is driven by an increase in decapitalizations of \$3.6 million offset by a modest increase of capitalizations of \$0.2 million.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets in FY22 totaled \$44.6 million revenue to FAS. This includes \$35.2 million related to restructuring the FAS's internal debt schedule with the University and \$9.4 million 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, 2022, deposits were \$1,383.4 million, up \$259.8 million from \$1,123.6 million in the prior year. This increase was primarily driven by debt funded construction.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2022 and 2021 were as follows:

<i>(in millions)</i>		FY 2022		FY 2021
Student Notes Receivable:				
University Loan Program	\$	27.0	\$	29.1
Faculty and Staff		139.5		129.3
Total Notes Receivable	\$	166.5	\$	158.4

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

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Fixed assets are recorded at cost or fair market value on the date of acquisition, net of accumulated depreciation. Depreciation is calculated using the straight-line method computed over the useful life of the asset. In addition to FY22 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, 2022 and 2021:

<i>(in millions)</i>	<u>FY2022</u>	<u>FY2021</u>
Research facilities	\$ 1,362.4	\$ 1,346.1
Classrooms and offices	589.8	552.9
Housing facilities	1,210.0	1,187.1
Libraries	257.2	253.3
Museums and assembly facilities	187.9	187.4
Athletic facilities	214.6	212.2
Service facilities	43.4	42.0
Leasehold improvements	96.8	93.0
Land	5.6	5.6
Construction in Progress	121.5	69.8
Equipment	<u>451.1</u>	<u>432.9</u>
Total fixed assets at cost	<u>4,540.3</u>	<u>4,382.3</u>
Less: accumulated depreciation	<u>(2,278.6)</u>	<u>(2,136.0)</u>
Total fixed assets, net	<u>\$ 2,261.7</u>	<u>\$ 2,246.3</u>

In FY22 the largest increase in the FAS Physical Plant was in classrooms and offices, resulting from the acquisition from Harvard Real Estate Services of 60 Oxford Street.

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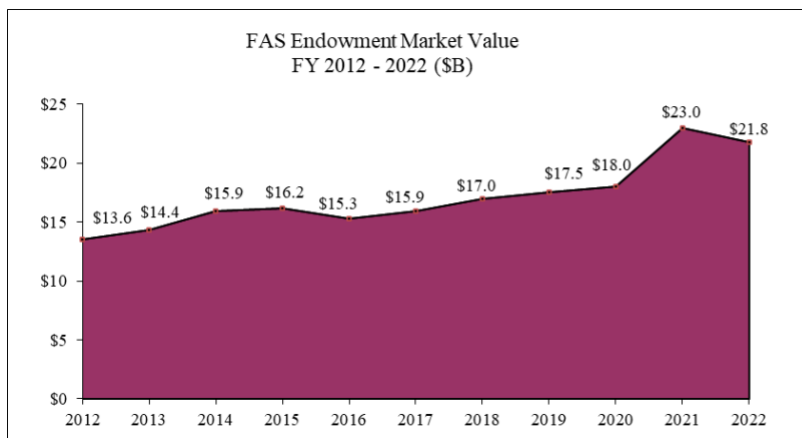
18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily endowment, totaled \$21.8 billion at FY22 year end. The market value of these investments decreased by \$1.2 billion, or 5.4 percent, from June 30, 2021. This change was primarily driven by the combination of market returns of -1.8 percent and the funding of the annual 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, 2022 and 2021:

<i>(in millions)</i>	FY2022	FY2021
Endowment investments	\$ 21,758.9	\$ 23,014.4
Gift fund investments	1.0	1.0
General Operating Account investments	25.0	24.0
Total Long term investments	\$ 21,784.9	\$ 23,039.4

The charts below summarize the FAS endowment market value over the past ten years:



(1) The 6/30/22 FAS endowment market value of \$21.8 billion includes endowment investments of \$21.7 billion and \$59.3 million undistributed investment earnings, exclusive of endowment pledges and interests in trusts held by others. In aggregate, the FAS endowment market value on 6/30/22 is \$22.2 billion.

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19. INTERNAL DEBT OBLIGATIONS

At the end of FY22 the FAS's outstanding debt was \$1,424.5 million, \$68.0 million more than in FY21.

<i>(in millions)</i>	FY2022	FY2021
Long-Term Debt	\$ 1,285.0	\$ 1,227.2
Faculty Loans	139.5	129.3
Total Debt and Notes Payable	\$ 1,424.5	\$ 1,356.5

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. In FY22, the FAS long-term debt portfolio increased by \$68.0 million. \$60.0 million of this increase was related to the decision to restructure FAS's internal debt schedule with the University.

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.

22. MODIFIED GAAP PRESENTATION

Beginning in FY14 the FAS began reporting results on a Modified GAAP basis, which has been defined by the University. The Modified GAAP Statement of Activity includes operating revenues less operating expenses, including depreciation expense. Its purpose is to assess the ability of the FAS to generate sufficient revenue to cover all operating expenditures, including depreciation. The following FY22 Statement of Activity and Cash Flow includes a detailed crosswalk between the FAS's managerial view and the Modified GAAP University view. We also present a cash flow analysis which includes operating results as defined in the Modified GAAP view, investments in capital (investing activities), and the impact of other financing activities.

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(in millions)

Faculty of Arts and Sciences
Consolidated
Statement of Activity and Cash Flow
Fiscal Year Ending June 30, 2022

	Fiscal Year 2022		
	Total - All Funds	Adjustments ⁽ⁱ⁾	Modified GAAP
Revenues			
Tuition and Fees	\$ 652.5		\$ 652.5
<i>Less: Financial Aid</i>	<i>(317.0)</i>		<i>(317.0)</i>
Net Tuition and Fees	335.5	-	335.6
Grants and Contracts - direct	196.8		196.8
Grants and Contracts - indirect	64.2		64.2
Endowment Distribution	850.8		850.8
Other Investment Income	7.0		7.0
Current-Use Gifts	122.2		122.2
Transfers from University - Academic Programs	63.1		63.1
Other Income	76.7		76.7
Income Reclasses		<i>(17.8)</i>	<i>(17.8)</i>
Total Revenues	1,716.3	(17.8)	1,698.5
Expenses			
Salaries and Wages	592.4		592.4
Employee Benefits	151.6		151.6
Fellowships and Awards	84.1		84.1
Supplies, Materials and Equipment	72.7		72.7
Operations and Maintenance of Plant	209.4		209.4
Principal and Interest on Internal Debt	136.7	(91.0)	45.7
Depreciation Expense	0.0	139.1	139.1
Transfers to University - University Assessment	47.2		47.2
Transfers to University - Academic Programs	17.8		17.8
Services Purchased	217.3		217.3
Other Expenses	54.1		54.1
Expense Reclasses		<i>(17.8)</i>	<i>(17.8)</i>
Total Expenses	1,583.3	30.3	1,613.6
Net Operating Results	133.0	(48.1)	\$ 84.9
Depreciation		139.1	139.1
Cash Flow Provided by (Used in) Operating Activities		91.0	224.0
Investment in Plant and Equipment, net	(61.3)	61.3	-
Capital Acquisitions and Expenditures		<i>(6,753.7)</i>	<i>(6,753.7)</i>
Cash Flow Provided By (Used in) Investing Activities		(6,692.4)	(6,753.7)
Principal Payments (internal loans)			(91.0)
Financing Activities			
Net Transfer (to)/from Endowment	(2.7)		(2.7)
New Debt (internal loans)		6,695.7	6,695.7
Principal Pre-payments (internal loans)		-	
Construction Gifts Applied		50.9	50.9
Split Interest Agreements and Other Changes in Net Assets	44.6	<i>(54.2)</i>	<i>(9.6)</i>
Cash Flow Provided By (Used in) Financing Activities		6,692.4	6,734.3
Net Change in Fiscal Year Activity	\$ 113.6	\$ (0.0)	\$ 113.6

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

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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.

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