

APPENDIX

FACULTY OF ARTS AND SCIENCES MANAGERIAL FINANCIAL REPORT

FISCAL YEAR 2010

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, 2010

	note	Fiscal Year 2010			Fiscal Year 2009		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues							
Tuition and Fees		\$ 411.4	-	\$ 411.4	\$ 387.8	-	\$ 387.8
Less: Financial Aid	(1)	(86.6)	\$ (117.2)	(203.8)	(48.2)	\$ (143.9)	(192.1)
Net Tuition and Fees		324.8	(117.2)	207.6	339.6	(143.9)	195.7
Grants and Contracts - direct	(2)	-	145.1	145.1	-	132.5	132.5
Grants and Contracts - indirect		48.3	-	48.3	42.2	-	42.2
Endowment Distribution	(3)	213.2	412.7	625.9	221.5	433.8	655.3
Other Investment Income ¹	(4)	3.8	3.9	7.7	8.0	12.2	20.2
Current-Use Gifts		28.4	35.0	63.4	40.6	36.0	76.6
Transfers from University - Academic Programs	(5)	31.4	25.5	56.9	40.5	21.0	61.5
Other Income ¹	(6)	38.0	0.4	38.4	36.2	1.0	37.2
Total Revenues (a)		687.9	505.4	1,193.3	728.6	492.6	1,221.2
Expenses							
Salaries and Wages	(7)	232.1	203.0	435.1	230.6	211.7	442.3
Employee Benefits		62.4	50.3	112.7	68.7	49.3	118.0
Fellowships and Awards		12.3	47.8	60.1	14.3	43.4	57.7
Supplies, Materials and Equipment		26.5	34.9	61.4	12.7	53.0	65.7
Operations and Maintenance of Plant	(8)	90.6	36.7	127.3	105.8	39.4	145.2
Principal and Interest on Internal Debt		96.9	0.1	97.0	86.3	0.1	86.4
Transfers to University - University Assessment	(9)	31.7	-	31.7	28.9	-	28.9
Transfers to University - Academic Programs	(10)	9.5	0.2	9.7	9.2	-	9.2
Services Purchased		30.5	36.2	66.7	40.9	37.5	78.4
Other Expenses	(11)	21.7	37.4	59.1	24.8	41.1	65.9
Total Expenses (b)		614.2	446.6	1,060.8	622.2	475.5	1,097.7
Net Operating Results		73.7	58.8	132.5	106.4	17.1	123.5
Investment in Plant and Equipment, net (c)	(12)	(44.1)	(19.5)	(63.6)	(42.0)	(15.8)	(57.8)
Net Transfer (to)/from Endowment (d)	(13)	2.3	(7.3)	(5.0)	(3.1)	(11.8)	(14.9)
Other Changes in Net Assets (e)	(14)	(19.9)	0.5	(19.4)	26.3	2.1	28.4
Net Change in Fiscal Year Activity (a-b+c+d+e)		\$ 12.0	\$ 32.5	\$ 44.5	\$ 87.6	(8.4)	\$ 79.2

¹ FY2009 Other Investment Income and Other Income have been restated to conform to accounting practice adopted in FY2010

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(in millions)

Faculty of Arts and Sciences
Core
Statement of Activity
Fiscal Year Ending June 30, 2010

	Fiscal Year 2010			Fiscal Year 2009		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 338.1	-	\$ 338.1	\$ 321.8	-	\$ 321.8
<i>Less: Financial Aid</i>	(79.1)	\$ (108.8)	(187.9)	(41.7)	\$ (137.1)	(178.8)
Net Tuition and Fees	259.0	(108.8)	150.2	280.1	(137.1)	143.0
Grants and Contracts - direct	-	112.2	112.2	-	104.3	104.3
Grants and Contracts - indirect	33.6	-	33.6	30.5	-	30.5
Endowment Distribution	178.3	298.5	476.8	169.0	332.7	501.7
Other Investment Income ¹	1.8	2.3	4.1	3.7	8.1	11.8
Current-Use Gifts	28.0	24.2	52.2	32.7	25.4	58.1
Transfers from University - Academic Programs	17.1	22.1	39.2	23.0	19.5	42.5
Other Income ¹	5.8	0.4	6.2	(12.5)	(0.8)	(13.3)
Total Revenues (a)	523.6	350.9	874.5	526.5	352.1	878.6
Expenses						
Salaries and Wages	169.8	142.6	312.4	159.4	156.8	316.2
Employee Benefits	45.2	33.9	79.1	48.3	34.5	82.8
Fellowships and Awards	11.8	43.4	55.2	13.4	40.0	53.4
Supplies, Materials and Equipment	15.6	15.4	31.0	6.2	28.5	34.7
Operations and Maintenance of Plant	72.4	26.1	98.5	84.7	29.7	114.4
Principal and Interest on Internal Debt	92.9	0.1	93.0	83.7	0.1	83.8
Transfers to University - University Assessment	24.2	-	24.2	21.9	-	21.9
Transfers to University - Academic Programs	6.9	0.2	7.1	6.7	-	6.7
Services Purchased	15.1	27.2	42.3	23.6	28.5	52.1
Other Expenses	9.2	27.1	36.3	12.1	32.1	44.2
Total Expenses (b)	463.1	316.0	779.1	460.0	350.2	810.2
Net Operating Results	60.5	34.9	95.4	66.5	1.9	68.4
Investment in Plant and Equipment, net (c)	(39.3)	(11.4)	(50.7)	(31.3)	(10.7)	(42.0)
Net Transfer (to)/from Endowment (d)	2.3	(5.7)	(3.4)	(3.0)	(10.7)	(13.7)
Other Changes in Net Assets (e)	(19.9)	0.4	(19.5)	26.4	2.3	28.7
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ 3.6	\$ 18.2	\$ 21.8	\$ 58.6	(17.2)	\$ 41.4

¹ FY2009 Other Investment Income and Other Income have been restated to conform to accounting practice adopted in FY2010

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

	note	June 30	
		2010	2009
ASSETS:			
Deposits with the University.....	(15)	\$ 700.5	\$ 563.1
Receivables			
Student Receivables		3.5	2.5
Other Receivables ¹		3.9	7.1
Prepayments and deferred charges.....		12.1	11.4
Notes Receivable	(16)	132.4	127.4
Pledges Receivable		180.8	206.0
Fixed assets, net of accumulated depreciation	(17)	1,651.8	1,655.2
Interests in perpetual trusts held by others		68.3	69.3
Long-term investments (primarily endowment).....	(18)	12,169.4	11,618.0
TOTAL ASSETS		14,922.7	14,260.0
LIABILITIES:			
Accrued Expenses		6.4	13.1
Deferred Revenue and other liabilities ¹		37.7	37.7
Internal Debt Obligations.....	(19)	1,053.9	1,083.5
Government loan advances	(20)	10.7	11.3
TOTAL LIABILITIES		1,108.7	1,145.6
TOTAL NET ASSETS	(21)	13,814.0	13,114.4
TOTAL LIABILITIES AND NET ASSETS		\$ 14,922.7	\$ 14,260.0

¹ FY2009 Other Receivables and Deferred Revenue and other liabilities have been restated to conform to accounting practice adopted in FY2010.

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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 \$203.8 million in FY10. This is an increase of \$11.7 million or 6 percent above FY09, as more of our students qualified for financial aid and the average aid package increased. The 2007 undergraduate financial aid middle income initiative 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 between \$120,000 and \$180,000 are asked to contribute an average of ten percent of their income, with a declining percentage – from ten to zero – for parents with annual incomes between \$60,000 and \$120,000. Harvard’s low-income initiative remains in place, with no contribution expected for families with incomes under \$60,000.

In FY10 FAS unrestricted spending on undergraduate financial aid increased by \$36.9 million, from \$18.1M to \$55.0M. This change resulted from a decrease in FY10 to the endowment returns made available for operations, as well as growth in the overall cost of undergraduate financial aid. An additional factor contributing to the year over year increase in unrestricted financial aid expense was the application in FY09 of unspent prior year endowment balances of \$20.0 million that enabled one-time relief to the FAS unrestricted budget in that year. Financial aid presented in the table below excludes \$60.1 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 2010			FY 2009		
	Unrestricted	Restricted ⁽¹⁾	Total	Unrestricted	Restricted ⁽¹⁾	Total
Undergraduate	\$ 55.0	\$ 91.4	\$ 146.4	\$ 18.1	\$ 119.1	\$ 137.2
Graduate	24.2	23.7	47.9	23.9	22.7	46.6
Continuing Education	7.4	2.1	9.5	6.2	2.1	8.3
Total Financial Aid	\$ 86.6	\$ 117.2	\$ 203.8	\$ 48.2	\$ 143.9	\$ 192.1

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

2. GRANTS AND CONTRACTS

FAS grants and contracts increased by 11 percent in FY10 to \$193.4 million, from \$174.7 million in FY09. Grants and contracts are comprised of the following:

(in millions)	FY 2010			FY 2009		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 38.2	\$ 19.3	\$ 57.5	\$ 34.6	\$ 17.2	\$ 51.8
National Science Foundation (NSF)	24.8	12.0	36.8	22.7	10.5	33.2
Department of Defense (DoD)	14.1	5.9	20.0	12.9	4.5	17.4
Other	13.6	6.1	19.7	11.9	4.8	16.7
Subtotal - Federally-Sponsored Research	90.7	43.3	134.0	82.1	37.0	119.1
Non-Federally Sponsored Research	36.8	5.0	41.8	35.1	5.2	40.3
Other Sponsored Awards	17.6	0.0	17.6	15.3	0.0	15.3
Total Sponsored	\$ 145.1	\$ 48.3	\$ 193.4	\$ 132.5	\$ 42.2	\$ 174.7
Effective Indirect cost rate			33.3%			31.9%

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 68 percent for organized on-campus research in FY10 and 67 percent in FY09. 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 68 percent recovery), was 33.3 percent in FY10, an increase from 31.9 percent in FY09.

3. ENDOWMENT DISTRIBUTION

FAS endowment returns made available for operations decreased by 4.5 percent, to \$625.9 million in FY10 from \$655.3 million in FY09. This change reflects the University's decision to reduce the endowment distribution made available for operations by 8 percent in FY10, made in response to the decrease in the endowment's market value in FY09. This 8 percent decrease was partially offset by the FAS decision to take the incremental distribution on all endowment funds in FY10, as well as new gifts and other additions to the endowment during the year. Endowment income represented 52 percent and 54 percent of the FAS's total revenues in FY10 and FY09, respectively.

In addition to the normal endowment returns made available for operations, the FAS utilizes the endowment's capacity through decapitalizations and the central assessment for administrative overhead.

Combining all of the FAS endowment distributions the FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 5.9 percent in FY10, and 4.4 percent in FY09. The increase in FY10 of the endowment payout rate resulted from a \$5.0 billion decline in the FAS endowment

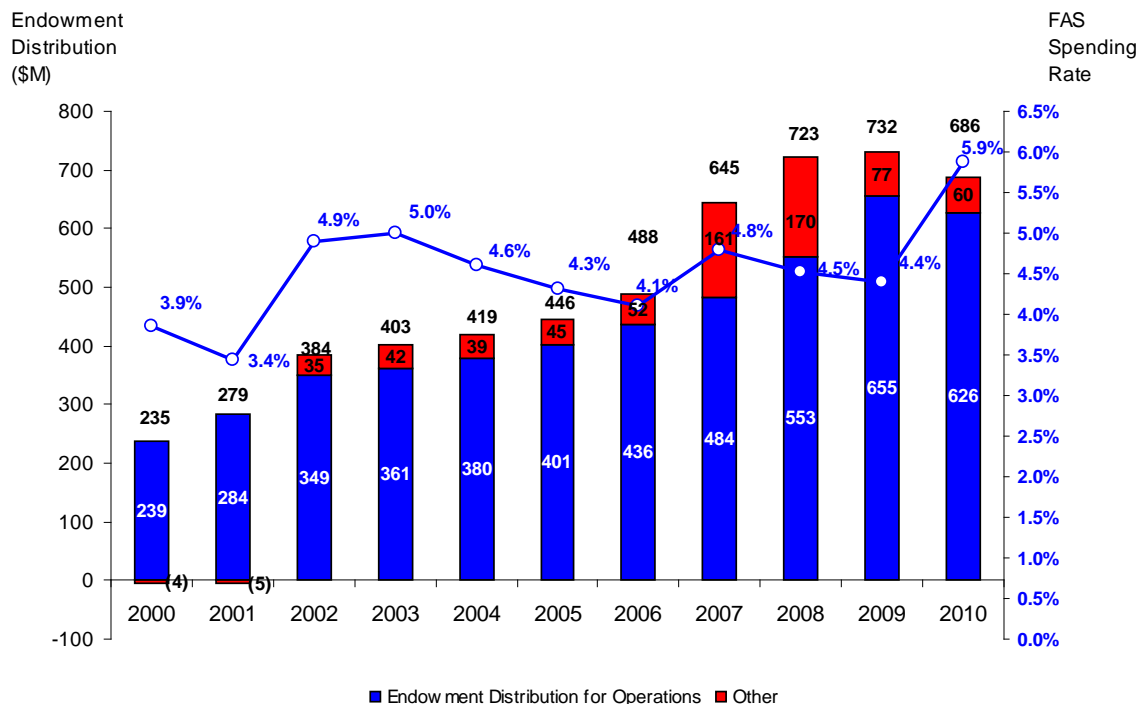
market value on June 30, 2009. Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market		% of Market	
	FY 2010	Value	FY 2009	Value
Endowment distribution	\$ 625.9	5.4%	\$ 655.3	3.9%
Decapitalization for central administrative overhead	56.8	0.5%	81.8	0.5%
Net endowment (caps) / decaps	3.5	0.0%	(5.1)	0.0%
Total spending from endowment	\$ 686.2	5.9%	\$ 732.0	4.4%

Beginning-of-year endowment market value ¹	\$11,663.3	\$16,668.6
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¹ Excludes Endowment Pledges and Interests in Trusts Held by Others. Prior year payout rates have been restated to include accumulated investment earnings in the beginning-of-year endowment market values to adopt to a University accounting change.

The chart below shows the FAS endowment distribution and payout rate since FY00:



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 \$12.5 million in this category to \$7.7 million in FY10 from \$20.2 million in FY09 was driven by a decrease in the rate of interest paid on fund balances, to 1.05% in FY10 from 4.3% in FY09.

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5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY10, the FAS received \$56.9 million in income transfers predominantly from the Offices of the President and Provost, including funding from the Harvard University Science and Engineering Committee (HUSEC). \$10.3 million was related to gifts and endowments held by the University but restricted for FAS purposes, including professorships, financial aid and academic program support; another \$10.0 million of University support was for the Harvard College Library, which benefits the entire University; and \$36.6 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 FY10 and FY09:

<i>(in millions)</i>	FY 2010	FY 2009
Rental income	\$ 5.8	\$ 7.2
Sales of services	8.0	6.9
Admissions application fees	4.9	4.2
Program and event income	2.4	2.8
Royalty income	2.6	2.1
Publication income	2.0	1.7
Miscellaneous income	12.7	12.3
Other Income	\$ 38.4	\$ 37.2

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

The decrease in rental income in FY10 reflects the loss of space recovery income formerly received on behalf of FAS faculty who are now housed in the Department of Stem Cell and Regenerative Biology, a University wide interdisciplinary and interschool science department.

7. SALARIES, WAGES AND BENEFITS

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY10, these costs represented 52 percent of total FAS expenses, totaling \$547.8 million. This figure is 2.2 percent below FY09 spending of \$560.3 million. The year over year reduction reflects a decrease in aggregate FAS headcounts of almost 200 FTEs, or 4 percent, resulting from FAS's participation in University-wide early-retirement and staff reduction programs developed in response to the slowdown in the economy. Faculty headcounts increased by 3.4% in FY10, driven primarily by an increase in research and academic support positions enabled by the availability of sponsored funds. Staff headcounts decreased by 6.4% over the same period.

In addition, faculty and administrative and professional staff salaries were held flat in FY10 while clerical and technical staff salaries followed the contracts in effect.

<i>(\$ in millions)</i>	FY 2010 ⁽¹⁾		FY 2009 ⁽¹⁾	
Faculty:	n		n	
Ladder Faculty	720		719	
Non-Ladder Faculty	339		326	
Visiting Faculty	46		66	
Research and Academic Support ⁽²⁾	159		112	
Total Faculty Headcount	1,264	\$149.3	1,223	\$147.8
Staff FTEs				
Administrative and Professional	1,567		1,640	
Clerical and Technical/Service and Trades	1,352		1,494	
Other ⁽³⁾	615		640	
Total Staff FTEs	3,534	285.8	3,774	294.5
Total salaries and wages	4,798	435.1	4,997	442.3
Employee Benefits	112.7		118.0	
Grand Total	\$547.8		\$560.3	

(1) Counts are as of the beginning of the academic year - Fall 2009 and Fall 2008 respectively. FY2009 has been restated to exclude staff FTEs related to the Yenching Institute.

(2) Includes Research Associates, Research Fellows, and other faculty with limited or no teaching responsibilities.

(3) Includes Program Fellows, Coaching Assistants, Internal Post Docs, Teaching Assistants and Visiting Fellows

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

FAS operations and maintenance expense decreased by \$17.9 million, or by 12.3% percent. While milder than normal summer and winter conditions, combined with lower than planned utility rates provided some of this savings, FAS's greenhouse gas reduction and energy conservation efforts were also significant contributors to this savings. At the end of FY10, the FAS campus included 263 buildings comprising approximately 9.7 million gross square feet of space. Operations and maintenance of plant includes the cost of utilities (\$43.8M), custodial, security and grounds keeping services (\$39.8M), repairs and maintenance (\$36.0M) and rental fees (\$7.7M).

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 budget size.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY10, the FAS transferred \$9.7 million to the University for academic program support. The majority of the amount transferred, \$9.5 million, was for the Academic Initiatives Fund, which began in FY00 and provides support for interfaculty initiatives under the management of the Office of the Provost. This contribution is made annually by each Harvard Faculty and is based on each Faculty's endowment market value as well as prior year salaries and wages, excluding student salaries and salaries bearing overhead. The remaining \$200K transferred in FY10 by the FAS to the University for academic program support was for HUSEC.

In FY09, the FAS transferred \$9.2 million to the Academic Initiatives Fund, and made no contribution to HUSEC.

11. OTHER EXPENSES

Other expenses, which include travel, postage, insurance, telephone and miscellaneous expenses were reduced by more than ten percent to \$59.1 million in FY10 from \$65.9 million in FY09. These reductions were in response to the economic downturn and a focused effort by the FAS. Major cost components in this category include: travel and entertainment costs (\$22.1 million), and telephone and photocopying costs (\$9.4 million), and insurance (\$7.6 million). The balance (\$20.0 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 \$113.5 million in FY10. Total capital expenditures included \$31.4 million for capital equipment, \$21.2 million for the continued fit-out of the Northwest and LISE buildings, and \$60.9 million of investments in existing plant, including life safety projects in the College residential houses, capital renewal projects, greenhouse gas reduction and energy conservation measures, and fit-out of space to support faculty recruitment.

Funding for capital spending in FY10 and FY09 came from the following sources:

<i>(in millions)</i>	<u>FY 2010</u>	<u>FY 2009</u>
Total capital spending	\$ (113.5)	\$ (167.6)
Less: debt proceeds	68.7	95.3
Less: construction gifts	2.4	0.0
Less: support from the University	81.1	18.7
Less: funds designated for Construction in Progress/Other	(102.3)	(4.2)
Investment in plant and equipment, net	\$ (63.6)	\$ (57.8)

Support from the University includes funding transfers from Central resources. In FY10, the FAS received \$81.1 million for projects relating to Stem Cell and Regenerative Biology lab renovations in Sherman Fairchild, Wyss Institute lab renovations, and House renovations and life safety projects.

Funds designated for Construction in Progress/Other occur when funding of projects exceed the actual capital costs incurred to date, and the funds are set aside for future construction costs on projects approved by the FAS and the Corporation. The most significant item in this category is central support for the Stem Cell and Regenerative Biology lab renovations in Sherman Fairchild.

13. NET TRANSFER (TO) / FROM ENDOWMENT

Net transfers (to) / from the endowment represent changes in the endowment related to endowment capitalizations and decapitalizations. Endowment distributions are as a matter of policy capitalized when a fund has not reached the University minimum principal balance for activation. Endowment decapitalizations occur on funds where the donor has approved spending beyond the normal spending rate to meet programmatic goals or to take advantage of extraordinary returns.

In FY10, the FAS reinvested \$5.0 million into the endowment, representing the net of endowment capitalizations and decapitalizations.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets include onetime changes in addition to income received from split interest agreements. In FY10, other changes in net assets included a onetime paydown of internal debt on retired plant assets of \$21.6 million. This payment is offset primarily by transfers from split interest agreements of \$2.2 million. In FY09, \$25 million of the other changes in net assets came from a single exceptional unrestricted bequest.

NOTES TO BALANCE SHEET

15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made of up fund balances and other general operating account (GOA) balances. The increase in FY10 relates to endowment fund balances due to the FAS decision to take the incremental distribution on all endowment funds in FY10 and on funds designated for construction in progress as noted in footnote 12.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2010 and 2009 were as follows:

<i>(in millions)</i>	<u>FY 2010</u>	<u>FY 2009</u>
Student Notes Receivable:		
Perkins Loan Program	\$ 12.7	\$ 13.3
University Loan Program	26.4	24.9
Faculty and Staff	<u>93.3</u>	<u>89.2</u>
Total Notes Receivable	<u>\$ 132.4</u>	<u>\$ 127.4</u>

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, 2010 and 2009:

<i>(in millions)</i>	<u>FY 2010</u>	<u>FY 2009</u>
Research facilities	\$ 1,034.1	\$ 988.2
Classrooms and offices	436.7	411.4
Housing facilities	413.2	385.0
Libraries	195.9	204.6
Museums and assembly facilities	134.1	119.4
Athletic facilities	126.5	129.5
Service facilities	12.8	12.8
Capital leasehold improvements	39.7	31.4
Land	1.5	1.5
Construction in Progress	47.0	75.6
Equipment	290.3	258.9
Total fixed assets at cost	<u>2,731.8</u>	<u>2,618.3</u>
Less: accumulated depreciation	<u>(1,080.0)</u>	<u>(963.1)</u>
Total fixed assets, net	<u>\$ 1,651.8</u>	<u>\$ 1,655.2</u>

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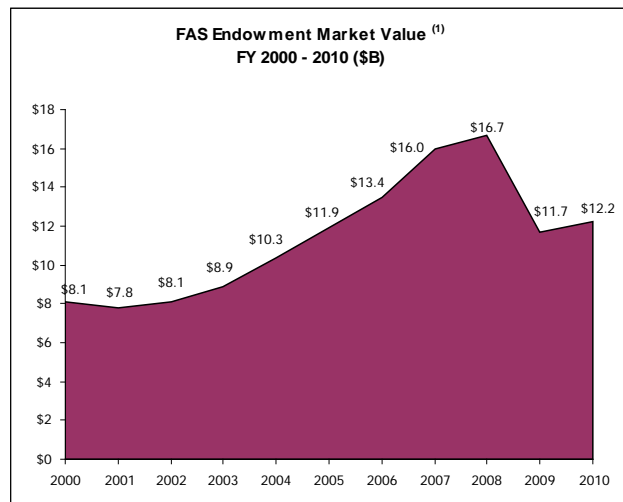
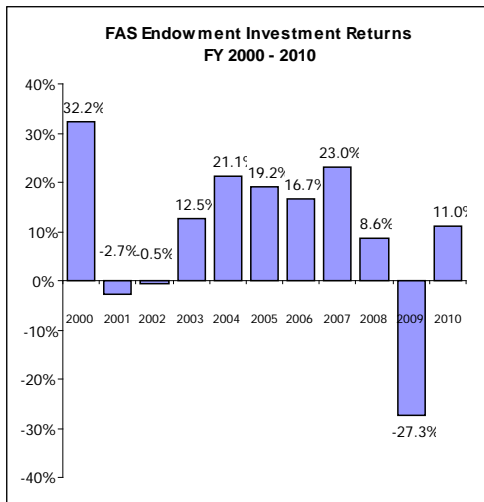
18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily in endowment, totaled \$12.2 billion at FY10 year end. The market value of these investments increased by \$0.6 billion, or 5 percent, from June 30, 2009. The increase in market value is driven by the net return on investments of 11 percent, less the funding of the FY10 endowment distribution. 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, 2010 and 2009:

<i>(in millions)</i>	FY 2010	FY 2009
Endowment investments	\$ 12,169.0	\$ 11,616.4
Gift fund investments	0.4	0.6
General Operating Account investments	-	1.0
Total Long term investments	\$ 12,169.4	\$ 11,618.0

The charts below summarize the investment returns from FY00 through FY10 and their impacts on the value of the FAS endowment.



¹ Endowment market value has been restated to include accumulated investment earnings. The FY2010 FAS Endowment Market Value is \$12.4 billion including Endowment Pledges and Interests in Trusts held by Others.

19. INTERNAL DEBT OBLIGATIONS

At the end of FY10, the FAS's outstanding debt was \$1.05 billion, \$29.6 million (2.7 percent) less than FY09.

<i>(in millions)</i>	FY 2010	FY 2009
Long-Term Debt	\$ 960.8	\$ 994.5
Faculty Loans	93.1	89.0
Total Debt and Notes Payable	\$ 1,053.9	\$ 1,083.5

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 Sciences buildings for new faculty.

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 external financing for major capital projects. The GOA includes 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 approximately 5,900 restricted endowment funds and over 1,900 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.