“THE KNOWLEDGE CREATED HERE IS THE GREAT PUBLIC GOOD WE CONTRIBUTE TO THE GLOBAL COMMUNITY. IT IS INSPIRING HOW MANY WORLD-CHANGING IDEAS TRACE THEIR LINEAGE BACK TO THE YARD.”

MICHAEL D. SMITH
Dear Colleagues,

It is my pleasure to present the Dean’s Annual Report on the activities of the Faculty of Arts and Sciences (FAS) during Academic Year 2017 (July 2016 through June 2017).

As one of the world’s leading academic communities, we go to great lengths to bring together the best faculty and most promising students and provide them the resources they need to do their best work. We are united under the idea of Veritas, or truth, a commitment to facts and to the advancement of knowledge. Asserting the value of Veritas feels more like a rallying cry than a dusty motto in our current climate, but pursuing truth has always been urgent at Harvard. The knowledge created here is the great public good we contribute to the global community. It is inspiring how many world-changing ideas trace their lineage back to the Yard.

This advancement of knowledge brings opportunities to seek solutions. A powerful example of our faculty’s deep engagement in seeking solutions to society’s most intractable problems is featured in this report. The new initiative on “Inequality in America” (page 5), spearheaded by Dean of Social Science Claudine Gay, tackles a complex problem with dimensions in work, family, education, migration, health, and more. Dean Gay has brought together colleagues from across disciplines to achieve what she hopes will be a threefold effect—make progress on research and teaching, build community and shared purpose around these timely issues, and partner with policymakers and community leaders to find solutions. This is one of a number of faculty initiatives emerging from our academic divisions and the John A. Paulson School of Engineering and Applied Sciences (SEAS) that has been brought from idea to reality through seed funding from President Drew Faust.

We are also finding new ways to open our research and teaching to the Boston community and beyond. The Harvard Museums of Science & Culture (HMSC), now celebrating its fifth anniversary (page 10), is a new model in university museums. Working across collections, HMSC partners with faculty to think broadly about interdisciplinary curatorial possibilities and programming that reach many different communities. One such example is the multiday conference on Native American running culture, co-sponsored by HMSC, the Harvard University Native American Program, and the Departments of Anthropology and Human and Evolutionary Biology (HEB). As Professor Dan Lieberman, chair of HEB, notes in the pages that follow, “All of these constituencies worked together for a set of events that were good for Harvard, good for the Native American community, and an illustration of how things can work better.”
We strengthen our faculty community, as it rises to meet the challenges of our time, by looking for talent where we might not have in the past and by unlocking the resources our faculty need to pursue their ideas, in both scholarship and teaching. In the “Faculty Trends” section of this report (page 13), we see that as of September 2017, our faculty numbers are at an all-time high (738, up from 732 in AY 2016). The FAS appointed 27 new ladder faculty in a wide variety of fields, including African American music, the history of modern East Asian science and technology, experimental condensed matter physics, and computational materials science, to name a few. Through the efforts of many, I am pleased to report that the numbers of women and minority faculty continue to rise. Following last year’s drop in the number of external offers to women, we are approaching parity in terms of the number of offers to men and women. Of course, we will remain vigilant. In this report, we describe how we will continue to build on the gains we have made, strengthen the climate for all faculty, and foster community within and beyond departments.

The “Financial Letter” (page 19) summarizes our continuing and hard-won progress on addressing the financial pressures that emerged as a result of the global financial crisis. In spite of these pressures, the past year included significant investments in our faculty and our students. One such investment is the Dean’s Competitive Fund for Promising Scholarship, which launched in FAS Fiscal Year 2017. Over two application cycles last year, the faculty awarding committee provided more than $2 million in support for 68 compelling faculty projects across the three FAS divisions and SEAS, with awards of between $5,000 and $50,000. The range of funded projects is an exciting view into a vibrant and ambitious faculty.

The work of our faculty has never been more important to the world in which we live. From the work you do to advance knowledge in your fields to the training of the next generation of scholars to the transformative educational experience you offer our undergraduates, your efforts propel society forward. The success of the Campaign for Arts and Sciences illustrates that, beyond a doubt, our alumni and other friends believe that investing in you has an enormous impact. They believe, as I do, that the FAS is a powerful platform for progress across a broad range of human endeavors.

The seemingly limitless energy and ideas of our extraordinary faculty, staff, and students continue to amaze me. I am proud of all we have been able to accomplish together, and look forward to all the advances sure to come in the new academic year.

Sincerely yours,

Michael D. Smith
Edgerley Family Dean of the Faculty of Arts and Sciences
John H. Finley, Jr. Professor of Engineering and Applied Sciences
INEQUALITY IN AMERICA

Working across disciplines, faculty in the Division of Social Science seek to address one of our society’s most intractable social problems.
The complexity of inequality has long weighed on Claudine Gay’s mind. So it makes sense that the new initiative put forth by the dean of Social Science will tackle the subject in as comprehensive a way as possible.

“Inequality isn’t one problem. It’s a constellation of problems that are intricate and interconnected. You pull at one thread, and it’s linked to all these other things,” says Gay, who is the Wilbur A. Cowett Professor of Government and of African and African American Studies. “Part of what’s unique about our approach is how multidisciplinary it is. To move from understanding the challenge to addressing it, we need to be broad gauged and empirically grounded in the complicated realities that define the problems.”

Gay worked with a 10-member faculty steering committee from across the social sciences, spending the better part of a year defining the intellectual vision and identifying key academic activities to help advance it. The initiative will include regular symposia, a post-doctoral fellowship program, and resources for course development. In addition to the inaugural symposium to be held October 13th, the committee plans to launch the fellowship program with a call for applications this fall and, later in the year, to establish a venture fund to award grants for early-stage and collaborative research.

The initiative spans five broad themes that, together, encompass some of the most acute challenges facing the United States, and also represent research areas in which Harvard scholars are particularly active. The topics are: work, family, and opportunity; governance, citizenship, and social justice; migration and mobility; American inequality, globally; and science, technology, education, and health. “My hope is that together with my faculty colleagues we will be able to build a legacy that will endure—in more courses, more papers, more grants, more collaborations, and more policy proposals,” says Gay.

Winthrop Professor of History Walter Johnson, who serves on the steering committee, says the initiative mobilizes ideas and resources in what he views as a critical time when the divide between the haves and have-nots is ever widening.
“WE’RE ALL WORKING ON THE SAME BEAST. THE AMBITION IS TO POSITION HARVARD AS A LEADING VOICE IN THE PUBLIC DISCOURSE ON INEQUALITY AND AS A CENTRAL RESOURCE FOR STUDENTS, SCHOLARS, AND POLICYMAKERS COMMITTED TO ADDRESSING THE ISSUE.”

CLAUDINE GAY
DEAN OF SOCIAL SCIENCE AND WILBUR A. COWETT PROFESSOR OF GOVERNMENT AND OF AFRICAN AND AFRICAN AMERICAN STUDIES
“For me, this set of issues is every bit as pressing as the set of issues that has drawn so much energy to the STEM fields,” says Johnson, who directs the Charles Warren Center for Studies in American History. “We’re at levels of inequality as extreme as in the Gilded Age. It couldn’t be more topical.”

The topics and disciplines—and closely threading them together—are what Gay believes make the initiative so consequential. The statistics she cites are staggering. For example, compared to white children, black children are three times as likely to attend school where fewer than 60 percent of teachers meet certification requirements. Given such urgent challenges, she hopes for a trifold effect.

“In five years, I want to say we made progress on all three fronts—catalyzing research and teaching, forging a sense of community and shared purpose around these critical issues, and partnering with policymakers and community leaders to find solutions,” she says.

The October symposium will spotlight research across the core themes of the initiative. “It will be an incredibly rich and varied day,” Gay says, of the Oct. 13th event.

Symposium panelists include economists Alan B. Krueger and Sandra E. Black, former members of President Barack Obama’s Council of Economic Advisers; social psychologist Jennifer Richeson of Yale University; and leading sociologists, historians, and political scientists from across the country. It’s a combination of voices and perspectives that Johnson believes can have trenchant power to effect actual outcomes.
“From my perspective, that’s what makes working at a university like Harvard most worthwhile. One thing I’m hopeful about is to try and use the initiative not simply as another occasion on which university-based intellectuals tell people how to do things, but as an opportunity to bring in front-line actors from communities and teach people in the University how to do things better,” says Johnson. “It seems to me that an aspect of this should be a self-reflection on Harvard, how it can do better in relation to the communities it inhabits, and all the ways in which the University is an actor in an unequal economy.”

W.E.B. Du Bois Professor of the Social Sciences and chair of the African and African American Studies department, Lawrence D. Bobo has been working on the governance, citizenship, and social justice subcommittee. He sees the conference as an opportunity to talk about one of his greatest concerns—racial discrimination in hiring and in the workplace—in a more expansive forum.

“Studies of implicit bias have primarily been the work of social and cognitive psychologists. But if we’re talking about workplace dynamics, there should be more voice for economists and organizational sociologists to talk about why it’s happening,” he says. “This opens up new avenues of research and training for our undergraduates, graduates, and postdocs. And by allowing a more holistic view of the problem, we hope to enable more appropriate lines of social and policy response.”

Adds Gay, “We’re all working on the same beast. The ambition is to position Harvard as a leading voice in the public discourse on inequality and as a central resource for students, scholars, and policymakers committed to addressing the issue.”
Success has come in spades. Museum attendance has increased 34 percent to nearly 300,000 annually, and public programming has doubled since HMSC was established in July of 2012.

At the heart of HMSC’s accomplishments are the 21 major exhibitions opened in that time span, including three new permanent ones in the last 18 months: Marine Life in the Putnam Family Gallery, the renovation of the famed Glass Flowers exhibit, and All the World Is Here: Harvard’s Peabody Museum and the Invention of American Anthropology.

More than 150 faculty from across FAS and other Schools have been directly involved in HMSC activities, acting as exhibit curators, presenters, and advisers on program development. Each year, students work with faculty and museum staff to carry out curatorial research for exhibitions, train as docents to lead museum tours, and create and teach public programs.

“We’ve shown that this type of interdisciplinary collaboration creates an exponential growth in opportunity—it is so much more than the sum of its individual parts,” says HMSC executive director Jane Pickering. “Our goal has
be to increase museum exhibitions, programming, and visibility while holding staff levels constant, by making the most of the efficiencies and vibrancy that came with the new HMSC structure.”

Beyond the numbers, Pickering said HMSC has done well in its ability to maintain each museum’s unique identity, while also thinking more broadly about curatorial possibilities that cross disciplines and programming that reaches diverse communities. At last year’s Boston Marathon, for example, HMSC co-sponsored a multiday conference on Native American running culture with the Harvard University Native American Program and the departments of Anthropology and Human and Evolutionary Biology.

“It was educational, but also inspiring,” says Daniel E. Lieberman, Edwin M. Lerner II Professor of Biological Sciences and chair of the Department of Human Evolutionary Biology, adding that more than a year later he still receives phone calls about the events. “All of these constituencies worked together for a set of events that were good for Harvard, good for the Native American community, and an illustration of how things can work better.”

Pickering hopes to build on HMSC’s momentum for the next five years, in part, by expanding cross-disciplinary projects, continuing to build relationships across the Harvard campus, and exploring new digital initiatives. Donald H. Pfister, chair of the HMSC Faculty Executive Board, Curator of the Farlow Library and Herbarium of Cryptogamic Botany, and Asa Gray Professor of Systematic Botany, counts among his priorities managing the museums’ growth within existing space and securing their financial future.

“All of us think about how to reach farther and build relationships with people that are more than just a one-time visit,” says Pfister, who regularly enjoys the museums with his family. “Rather than merely a place to come to be informed, we want people to invite their kids and their grandparents to come and learn. Our expanded programming and rotating exhibits have given people a reason to come back. They know there are always new and different things to see.”


2: A young visitor enjoys hands-on activities as part of a family festival at the Harvard Museum of Natural History.

3: More than 2,000 people regularly attend the annual Summer Solstice Celebration: Night at the Harvard Museums of Science & Culture.

FACULTY TRENDS

Office for Faculty Affairs
Academic Year 2016–17
Faculty Trends

In Academic Year (AY) 2016–17, the Faculty of Arts and Sciences (FAS) continued to strengthen and diversify the faculty through the recruitment of new faculty and the promotion, retention, and professional development of its members. In this section, we will review these efforts, including recent successes and areas in which we are looking for further improvement.

As of September 2017, the FAS includes 738 ladder faculty (up from 732 last year). The FAS appointed 27 new ladder faculty in a wide variety of fields, including African American music, the history of modern East Asian science and technology, experimental condensed matter physics, and computational materials science, to name a few. In addition, the FAS saw 21 ladder faculty depart and promoted 9 tenure-track faculty to tenure.

The FAS continues to pay close attention to recruitment practices to ensure that we are selecting faculty from the broadest talent pools. We are pleased to report that the representation of women and minorities in our faculty continues to rise. Currently, the faculty is composed of 221 women (up from 213 last year) and 162 minorities (up from 155 last year). Women now represent 30% of the faculty and 43% of the tenure-track faculty. Minorities represent 22% of the faculty and 30% of the tenure-track faculty.

Figure 1: Ladder-Faculty Counts in the FAS, Fall 1998 to Fall 2017

Figure 1: Ladder-Faculty Counts in the FAS, Fall 1998 to Fall 2017. The ladder-faculty ranks include Convertible Instructor, Assistant Professor, Associate Professor, Professor, Professor in Residence, and University Professor.

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1. The ladder-faculty ranks include Convertible Instructor, Assistant Professor, Associate Professor, Professor, Professor in Residence, and University Professor.
2. Specifically, 27% of senior faculty (i.e., Professors, Professors in Residence, and University Professors) and 43% of tenure-track faculty (i.e., Assistant Professors and Associate Professors) are women.
3. The minority category includes the following race and ethnicity designations: "Hispanic or Latino," "Black or African American," "Native Hawaiian or Other Pacific Islander," "Asian," "American Indian or Alaska Native," and "Two or More Races."
4. Specifically, 20% of senior faculty and 30% of tenure-track faculty are minorities.
In last year’s annual report, we expressed concern that the percentage of external offers made to women had dipped to 38% in AY 2015–16. We are pleased to report that this drop was reversed in AY 2016–17, as 49% of our offers were made to women. We attribute this progress to the outstanding candidate pools gathered by departments and areas, and to the attention our colleagues are giving to best practices and decision-making throughout each search.

By applying the same focused attention and deliberate practices to all our searches, we believe that we can further improve our hiring of not only men and women, but also outstanding minority ladder faculty. We have achieved some notable successes in recent years, and we must continue to do even better. Over the last three years, 31% of all external ladder-faculty offers were made to minorities. This includes 21% to Asian faculty, 5% to Black or African American faculty, 4% to Hispanic or Latino faculty, 1% to American Indian or Alaska Native faculty, and 0% to faculty of two or more races.

### Measuring Progress

As we work to build our faculty, there are many ways for departments and areas to measure the effectiveness of their searches. Below, we discuss one way to ensure that searches include the most outstanding scholars: We can measure how well we utilize the PhD pipeline and candidate pools.

Last year, to support recruitment efforts, we started distributing to each search committee data that shows key diversity statistics for their field of interest. This data includes the diversity make-up of PhD graduates in a cohort of U.S. R1 institutions, as well as the diversity make-up of recent applicant pools and finalists for searches in the department or area over the past five years. Providing this information allows search committees to see where they might need to broaden their attention when conducting a search. For example, if the applicant pools tend to be less diverse than the pool of recent PhD graduates in a particular field, the search committee may need to focus on outreach strategies.

Similarly, if finalists tend to be less diverse than the applicant pools they are drawn from, the search committee may need to focus on their screening and selection process, in addition to their outreach.

In some cases, the data suggests a more diverse pipeline than is commonly perceived and can remind departments and areas to extend their outreach practices in ways that welcome all candidates. In other cases, the data shows a regrettable dearth of minority and female candidates among recent PhDs. To make substantial progress in fields with low percentages of minorities and women in PhD programs, we need to focus earlier in the pipeline by encouraging undergraduates to participate in research programs and by building postdoctoral programs that support and develop exceptional and traditionally underrepresented scholars.

Encouraging underrepresented students to engage in academic endeavors and surveying and recruiting from the full range of talent in the PhD pipeline are vital if we are to bring the most extraordinary faculty into the FAS. We cannot simply hope that the best scholars will find their way to us. We need to actively develop and search for them.

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**Table 1: External Ladder-Faculty Offers by Gender, AY 2014–15 to AY 2016–17**

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<tr>
<td>Offers to women</td>
<td>20 (45%)</td>
<td>14 (38%)</td>
<td>19 (49%)</td>
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<tr>
<td>Offers to men</td>
<td>24 (55%)</td>
<td>23 (62%)</td>
<td>20 (51%)</td>
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<tr>
<td>Total</td>
<td>44</td>
<td>37</td>
<td>39</td>
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Table 1: External Ladder-Faculty Offers by Gender, AY 2014–15 to AY 2016–17. The ladder-faculty ranks include Convertible Instructor, Assistant Professor, Associate Professor, Professor in Residence, Professor, and University Professor.

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5 We used Integrated Postsecondary Education Data System (IPEDS) PhD completion data, limited to institutions that are part of the Association of American Universities Data Exchange (AAUDE). “R1” denotes doctoral-granting institutions with the highest research activity, according to the Carnegie Classification of Institutions of Higher Education.
Helping with Search Practices

To help our departments and areas as they tackle these issues, we are providing guidance, support, and data. For the coming year, we have provided pipeline and pool data to all departments and areas, regardless of whether or not they are conducting a search. We urge departments and areas to undertake thoughtful canvassing practices that will actively encourage applications from all qualified candidates. This includes outreach to colleagues at a wide range of institutions, active recruitment at conferences, and the use of professional-organization networks. Additional interventions that could increase the size and diversity of our applicant pools include attending events geared toward women and minorities at professional meetings and wide posting of job advertisements on sites and lists geared toward diverse candidates. In addition, defining searches as broadly as possible will ensure the most comprehensive pool of applicants, and assembling a search committee that is diverse in academic perspectives and demographic make-up will help to set an important foundation for an effective search.

Once candidates have applied, many practices can mitigate potential bias in search committee deliberations and can diminish the effects of less diverse pools. In “Recommendations for Ensuring the Integrity of Faculty Searches,” the Office for Faculty Affairs (OFA) and Mahzarin R. Banaji, the Richard Clarke Cabot Professor of Social Ethics, chair of the Department of Psychology, and Senior Adviser to the Dean on Faculty Development, suggest some easy-to-implement practices that can have significant implications. These practices include strategies for reading and discussing applications, agreeing in advance on a set of questions to be asked of all interviewees, planning consistent campus visits, and tips for conducting final deliberations. All these practices can counteract unconscious bias and ensure a fair and equitable search process for all candidates.

Many of our search committees who deploy these practices find that they bring outstanding colleagues into the FAS. Through sustained effort, we can continue to build a faculty that reflects the vibrancy and diversity of academic voices today.

Promotion Statistics

The FAS remains deeply committed to a tenure-track system, and promotion rates remain strong. Of the 18 tenure-track faculty scheduled to be reviewed for tenure, 14 faculty completed the review process, while four did not stand for promotion or withdrew from consideration, including three men and one woman. Of the 14 faculty who completed their review, nine (64%) were successfully promoted to tenure, and five (36%) were unsuccessful. Six of nine men (67%) and three of five women (60%) were successfully promoted to tenured professor.

Faculty Development

Supporting faculty is central to the Office for Faculty Affairs’ mission. In previous annual reports, we have discussed attrition from the tenure track as well as the approach we have taken to foster community and to improve the climate for faculty. Based on feedback from exit interviews, annual faculty activity reports, surveys, and informal conversations, we have expanded and tailored our offerings to suit faculty needs.

Each August, OFA invites all new ladder faculty to join the New Faculty Institute (NFI). The NFI convenes members of key offices—including FAS Research Administration Services, the Derek Bok Center for Teaching and Learning, and the Divisional Deans and John A. Paulson Dean of the School of Engineering and Applied Sciences (SEAS)—to offer essential resources and advice. Throughout the year, tenure-track faculty are invited to professional development events. In AY 2016–17, this programming included a workshop on giving and receiving feedback led by Douglas Stone, Lecturer on Law (Harvard Law School), and a panel on graduate advising with Eric Beerbohm, Professor of Government; Robin Bernstein, Dillon Professor of American History and Professor of African and African American Studies and of Studies of Women, Gender, and Sexuality; and Elena Kramer, Bussey Professor of Organismic and Evolutionary Biology (OEB), Harvard College Professor, and chair of OEB. OFA also launched a successful pilot program in laser coaching, which connected tenure-track faculty to certified coaches for focused, confidential conversations about specific challenges.
In addition, OFA is expanding its support for department chairs and area chairs. As faculty leaders, chairs are key partners in the mentoring and support of tenure-track faculty, establishing positive departmental climates, and executing equitable searches and reviews. OFA invites all new chairs to an orientation that discusses important administrative responsibilities and resources that chairs can draw upon. In AY 2016–17, we also launched a leadership workshop with Joshua D. Margolis, James Dinan and Elizabeth Miller Professor of Business Administration (Harvard Business School). In AY 2017–18, Hannah Riley Bowles, Senior Lecturer in Public Policy (Harvard Kennedy School), and Gillien Todd, Lecturer on Law (Harvard Law School) and Lecturer on Education (Harvard Graduate School of Education), will work with our chairs on negotiation, especially negotiating with peers.

These efforts are part of a comprehensive plan to help all our colleagues make their best contributions to research, teaching, and our community. We strive to promote a positive culture of support through recruitment and retention efforts aimed at building a vibrant and diverse faculty. We also continue to listen and respond to faculty needs in order to make Harvard an outstanding place for all faculty to do their best work.
At the time of publication

David Atherton
Katia Bertoldi*
Flavio du Pin Calmon
Claire Chase
Charles Conroy
Karen Dynan**
Rebecca Fischer

Katrina Forrester
Roger Fu
Roxanne Guenette
Nathaniel Hendren
Lucas Janson
Boris Kozinsky
Francis Macdonald

James Mallet
Hannah Marcus
Jarad Mason
Franziska Michor**
Durba Mitra
Samir Mitragotri
Susan Murphy

Prineha Narang
Karin Öberg
Karthik Pandian
Natesh Pillai
Michael Pollan
Pia Raffler
Laurence Ralph

Sarah Richardson
Mayra Rivera Rivera*
Victor Seow
Braxton Shelley
Esperanza Spalding
Lucas Stanczyk
Cornel West**
Anna Wilson
Benjamin Wilson
Minlan Yu

*Appointment began 1/1/2017.
**Joint appointment with Harvard Kennedy School.
†Joint appointment with Harvard Divinity School.
††Joint appointment with Harvard T.H. Chan School of Public Health and Dana-Farber Cancer Institute.

● Appointed to tenure-track positions, with appointments starting in AY 2017–18
● Internally promoted to tenured professor, with appointments starting in AY 2017–18
● Appointed to tenured professor, with appointments starting in AY 2017–18
● Appointed to Professor of the Practice, with appointments starting in AY 2017–18
● Appointed to Professor in Residence, with appointments starting in AY 2017–18
FINANCIAL REPORT
Office for Administration and Finance
Academic Year 2016–17
Modified GAAP: The “Modified GAAP” (Generally Accepted Accounting Principles) view describes the FAS’s internal income statement in a way that is consistent with the University’s external statements. In this view, depreciation—or the annual wear and tear on physical assets such as buildings and equipment—is included as an operating expense, while principal payments on internal debt are excluded.

Management View: The Management view focuses on our overall change in cash, where a surplus represents an increase in reserves and a deficit represents a decrease. The Management view incorporates all cash expenses, whether generated through operations—the teaching and research activities at the FAS—or through capital expenditures (i.e., construction activities and the purchase of certain equipment).

Consolidated and Core Views: The FAS budget is both large (over $1.4 billion) and highly decentralized, with significant spending occurring within the direct control of over 150 separate departments, centers, libraries, and museums. Within the Management view, the Consolidated Statement of Activity presents important categories of revenues and expenses of the FAS as a whole. This view combines what is typically called the “Core” of the FAS (which comprises the faculty, the College, and the Graduate School of Arts and Sciences) together with the other major affiliates of the FAS (i.e., Athletics, the Division of Continuing Education, Dumbarton Oaks, the Harvard College Library, the Museums, and the John A. Paulson School of Engineering and Applied Sciences). Given that the Core constitutes about 72 percent of both the FAS Fiscal Year 2017 consolidated revenues and consolidated expenses, we also present a Fiscal Year 2017 Statement of Activity for just the Core.

Balance Sheet View: Finally, we include a Balance Sheet for the FAS, another statement that measures the FAS’s financial health. The Balance Sheet displays the FAS’s assets, liabilities, and accumulated results of its operations over time as of the end of each of the last two fiscal years.

It is important to note that these results are not audited, nor should they be confused with the audited financial statements of Harvard University as a whole, which will be published in October 2017. However, we have worked with the University to ensure that our figures and theirs agree.
Overview and Outlook

This report will expand on the following highlights:

- The FAS completed Fiscal Year 2017 operations with a significantly smaller deficit than anticipated and approaching balance in the Modified GAAP view.

- In the Management view, the result was a surplus rather than a deficit for the first time in several years, reflecting a restructuring of the debt the FAS is scheduled to pay to the University for past and current capital projects. This restructuring has the effect of creating a modest cash cushion in lieu of a cash deficit, much needed in a time of financial challenges and uncertainty.

- The FAS continued to invest strategically in its research and teaching mission and the student experience.

- To enable the FAS’s capacity for investments, a major focus was placed during Fiscal Year 2017 operations on conserving unrestricted cash and reserves. The aforementioned debt restructuring was related to this objective.

- The FAS’s balance sheet reflects an increase in Total Net Assets of $616.2 million or 3.4 percent during Fiscal Year 2017, mostly attributable to endowment earnings of 8.1 percent, offset by increased internal debt obligations related to House Renewal and the debt restructuring.

- The Fiscal Year 2018 budget is based on zero growth in the endowment distribution.

- Key investments in the mission will always be a priority; thus, navigating ongoing revenue pressures will require continued management attention and priority setting of the type that the FAS has demonstrated in these results.

Almost all of these recent strategic investments were funded in whole or in part by FAS unrestricted cash reserves and unrestricted giving. Through careful fiscal planning and prudent spending, the FAS has been able to regain a near-balanced budget within a few years, but it has not been able to replenish its spent reserves through the normal course of operations. Accordingly, through consultation with University colleagues, in late Fiscal Year 2017 we agreed upon a revised schedule for repaying debt borrowed from the University. This agreement is described in detail in the following section.

These results demonstrate continued progress toward the goal of eliminating the annual operating deficit created by the underperformance of the endowment in Fiscal Year 2012 and propagated to the FAS through a 2 percent endowment distribution increase in Fiscal Year 2014. As the FAS receives approximately 50 percent of its annual income from distributions on its endowment, its financial health and operating budget are highly dependent upon (and two years offset from) the endowment investment performance and are extraordinarily sensitive to even small fluctuations in its distribution.

The sharp decreases in endowment distribution in Fiscal Years 2010 and 2011 (down 8 percent and 12 percent, respectively), which were a result of the economic recession of 2008–09, created shortfalls in the FAS budget that took three full fiscal years to close. Similarly, it took the FAS three years to absorb the low (2 percent) endowment distribution increase in Fiscal Year 2014, which was a result of the near-zero investment performance of the endowment in Fiscal Year 2012. Subsequent-year increases in the endowment distribution (3 percent, 6 percent, and 4 percent in Fiscal Years 2015, 2016, and 2017, respectively) helped to shrink the deficit to the level described in the section below. However, the negative 2 percent endowment investment performance in Fiscal Year 2016 means that the endowment distribution remained flat for the Fiscal Year 2018 budget, producing a larger than budgeted deficit once again.

While ongoing budgetary challenges have required careful management, the FAS has continued to invest strategically in its research and teaching mission. In Fiscal Year 2017, these investments included the Dean’s Competitive Fund for Promising Scholarship, enhancements to students’ social experience in the College, graduate student benefits and support, and capital projects including the renovation of the Science Center/Cabot Library and House Renewal. More details on these and other investments in Fiscal Year 2017 are provided later in this report.
Fiscal Year 2017 Results: Modified GAAP deficit reduced, new debt schedule results in Management view surpluses

In the Modified GAAP view, the FAS financial results are generally consistent with recent past years. Through continued discipline and management actions, we reduced our Consolidated, all-funds deficit from $23.0 million in Fiscal Year 2016 to $11.7 million in Fiscal Year 2017, an improvement of $11.3 million or 49 percent. Excluding SEAS, the Modified GAAP deficit for the FAS was $2.6 million, down $21 million from the budgeted level and the closest the FAS has come to achieving Modified GAAP balance since that standard was introduced at the school level in Fiscal Year 2014.

In the Management view, the bottom-line results look significantly better, reflecting a Consolidated, all-funds surplus of $60.0 million, an improvement of $72.9 million over the Fiscal Year 2016 deficit of $12.9 million. The Consolidated, all-funds result for the Core alone improved from a small deficit of $2.5 million in Fiscal Year 2016 to a surplus of $50.6 million. Core unrestricted results are closely watched as they are what fill or drain the FAS cash. The Core unrestricted results showed similar improvement in Fiscal Year 2017, a surplus of $21.4 million as compared to deficits of $17.8 million, $29.4 million, and $55.1 million over the past three years, respectively.

The surpluses in all of these Management views are directly attributable to a restructuring of internal debt according to an agreement entered into with the University in May 2017. Without this agreement, the underlying unrestricted operating results would have been a deficit, albeit a smaller one than in past years, reflecting continued management efforts and economies.

The level of reserves provided through the refinancing is welcome, but modest. It is well below what might be considered adequate for an entity of the FAS’s size. The unrestricted core surplus of $21.4 million is equivalent to 3.4 percent of core unrestricted revenues, compared to a benchmark of 10 percent considered minimally adequate. The surplus would provide only about 12.4 days of unrestricted cash needs. Moreover, the short-term relief it affords will give way to higher costs in time as the FAS compensates the University for reduced payments in the early years. The hope is that this action will buy time for the needed investments to be made and other budgetary remedies to develop. The level of reserves created by this mechanism should therefore be used sparingly for the most important investments and as a modest cushion against future shocks and uncertainty, not as a source of funds for recurring routine spending.

Revenues. In the Management view, on a Consolidated, all-funds basis, FAS total revenues grew by $58.6 million or 4.2 percent over Fiscal Year 2016 levels. Revenue sources that increased over the prior year included: Net Tuition [+4.0 percent, driven by a 3.9 percent increase in the cost of attendance for undergraduates (not including financial aid)], and significantly increased enrollment in DCE; Endowment Distribution [+4.7 percent, reflecting a 4.0 percent formula distribution increase]; Grants and Contracts [+8.8 percent]; and Transfers from the University [+12.0 percent]. Other Income declined by 8.0 percent from the prior year when this category was bolstered by a new license agreement. Current Use Gifts declined by 5.0 percent in Fiscal Year 2017.

The 8.8 percent growth in Sponsored Revenue in the FAS overall and particularly in SEAS was notable given the overall uncertainty in the research funding environment. The FAS and SEAS have partnered in investing in administrative support for faculty efforts to enhance and diversify sponsored revenue.

The Fiscal Year 2017 actual revenue results were higher than the budget predicted, by $24 million or 1.7 percent.

Revenues highlight – The Campaign for Arts and Sciences

As of June 30, 2017, the Campaign for Arts and Sciences has raised $2.84 billion in gifts and pledges to advance Harvard’s fundamental commitment to discovery and to the education of leaders to make a positive difference in the world. This dollar total reflects the cumulative generosity of nearly 70,000 donors, who have made over 264,000 gifts to the FAS. To date, more than 2,300 volunteers have supported the Campaign.

1 The agreement in effect creates a new schedule for repaying internal debt to the University, which has been borrowed by the University treasury and loaned to the FAS with interest, consistent with the practice across Harvard for financing some capital improvements. Specifically, in the new schedule the FAS will pay the University the same amount each year over 20 years, rather than greater amounts in the beginning and lower amounts in the future. This produces near-term budget relief in years 1-10 in exchange for greater payments in years 11-20. The payment schedule incorporates an interest charge at the rate of 4 percent per year.

To maintain consistency in our financial statements, the regular amount of debt service will continue to be budgeted and reported. The level payment contemplated in the agreement will be effectuated through an operating loan which, when combined with the debt service payment schedule, will yield a net flat payment for 20 years.
The extensive impact of the Campaign on our campus and in the lives and work of our students and faculty can and will be felt in many ways, including: more named chairs and research funding for our outstanding faculty; investment in specific academic programs such as Creative Writing; ongoing support for our leading financial aid program; transformed spaces for teaching, studying, living, and socializing; innovative approaches to teaching and learning in the digital age; and increased professional and social experiences for students.

**Expenses.** In the Management view, on a Consolidated, all-funds basis, FAS total expenses grew by $47.6 million or 3.5 percent over Fiscal Year 2016 levels. The major expense categories are detailed below.

**Salaries, Wages, and Benefits:** Faculty and staff compensation (salaries, wages, and benefits) represents the largest component of the FAS budget. Salaries, wages, and benefits increased by $21 million or 3.2 percent over Fiscal Year 2016 levels. Contributing to this increase were annual merit increases for FAS faculty, exempt and union employees, which averaged 2.5 percent. Compensation was increased for House Faculty Deans, and the Fair Labor Standards Act (FLSA) resulted in increased earnings for certain postdoc employees. The remainder of the increase was the result of other personnel transactions, including new faculty hires, modest staff position growth, filling of vacant positions, and reclassifications and equity adjustments.

In Fiscal Year 2017, FAS faculty and instructors stood at a count of 1,043 Full Time Equivalents (FTE) compared to 1,042 in Fiscal Year 2016. Please see the “Faculty Trends” section of the Annual Report for a more detailed discussion of faculty counts and growth.

We continue to monitor staff headcount closely and look for opportunities for efficiency. On June 30, FAS staff stood at a count of 2,670 FTE compared to 2,617 FTE at the end of Fiscal Year 2016, a net increase of 53 positions. Position growth was concentrated in the Science Division (+31), DCE (+14), and the Derek Bok Center for Teaching and Learning (+8). Science Division growth occurred primarily in Stem Cell and Regenerative Biology, the Harvard Stem Cell Institute, Organismic and Evolutionary Biology, and Research Computing.

DCE’s and the Bok Center’s increases represent continued strategic investments according to multiyear plans. These areas of growth were offset by small changes and overall stable levels in other units. For the fourth year in a row, there was little to no growth in administrative departments other than continued administrative consolidations from other units, principally SEAS, and a small increase in the staff providing assistive technology to students across Harvard.

The FAS’s position review process, which places extra scrutiny on positions funded with unrestricted dollars, is more streamlined for positions on sponsored research funds or restricted funds. In Fiscal Year 2017, positions on sponsored research funds and restricted funds grew by 8.1 percent and 2.1 percent, respectively, versus 1.4 percent growth in positions on unrestricted funding. Positions on sponsored or other time-limited funding sources are almost always term limited to match the availability of the funds supporting them. Accordingly, over 70 percent of the new positions last year were term limited.

**Supplies and Equipment:** Supplies and equipment costs declined by $3.0 million or 4.2 percent from the Fiscal Year 2016 level. Examples of expenditures in this category include: laboratory supplies and materials; cost of collections in the libraries and museums; non-capitalized equipment; and general office and computer supplies.

**Operation and Maintenance of the Physical Plant:** The costs to operate the FAS’s large physical plant, comprised of over 10 million square feet in 267 buildings, increased by $10 million or 5.9 percent in Fiscal Year 2017.

In the continuing program to enhance facilities management and improve efficiencies, substantial progress was made in integrating and coordinating the FAS, Athletics, SEAS, and Library building operating teams. In Fiscal Year 2017, this effort was expanded to include the museum complex containing the Museum of Comparative Zoology, the Harvard Museums of Science & Culture, the Harvard University Center for the Environment, the Peabody Museum of Archaeology & Ethnology, and several other related groups. For the FAS Core, careful facilities operations and cost management resulted in actual costs of $4.6 million or 3 percent below budget.
The FAS Office of Physical Resources and Planning (OPRP) staff is dedicated to the proper stewardship and operations of FAS facilities through continuing investment in life-safety and building systems renewal. In Fiscal Year 2017, the FAS invested $210.8 million in capital and $47.0 million in operations for renewal of FAS Core and Affiliates facilities. In addition to that investment, $161.7 million was invested in the House Renewal program this year. These investments, which represent a renewal level of 6.7 percent, were at a level significantly above the general guideline for renewal investment (2.5 percent of Current Replacement Value, or CRV). Even without the significant investment in the Houses, the FAS was at 4.2 percent renewal level. Fire alarm and sprinkler systems were upgraded in a number of residential, library, and academic buildings.

Over $30 million was invested in capital maintenance during Fiscal Year 2017. Large investments were made in renewing elevators (Mather House, the Science Center, Office for the Arts). A series of new electrical transformers and switchgear was installed at the athletic complex to replace aging equipment that represented a single point of failure for multiple buildings. Maintenance investments included upgrades to the electrical system and water lines in Music, lighting in the Biological Laboratories (BioLabs), foundation waterproofing at the Barker Center, and HVAC upgrades and equipment replacement in 12 buildings. A major infrastructure replacement project costing $36 million over three years is underway to replace the HVAC system in the BioLabs, one of Harvard’s most significant lab buildings housing over 30 science faculty research groups. The project modernizes the building systems and will serve the needs of the research community for the foreseeable future, also making available 3,400 new square feet for research.

_Debt Service:_ In the financial statements, debt service is portrayed without the debt restructuring described above in order to maintain consistency in reporting of operating results. Debt service increased from $92.7 million to $94 million year over year. (In our income statement, the debt restructuring is portrayed as an operating loan with Fiscal Year 2017 savings included in “Other Change in Net Assets” totaling $32 million.)

_Transfers to the University:_ Transfers to the University, including the University Assessment and transfers for Academic Programs, increased by $1.7 million or 2.7 percent.

_Services Purchased:_ This category has seen significant increases in recent years with the transfer of FAS Information Technology and Library staff and services to the University. In Fiscal Year 2017, services purchased grew by $9.6 million or 6 percent, driven by increased subcontracts associated with sponsored awards, research services, and planning for future capital projects.

_Other Expenses:_ Other expenses increased by $2.6 million or 3.8 percent in Fiscal Year 2017. This category is comprised of many different expense types, including travel and events, telephone and photocopying, subscriptions, insurance, and postage. In Fiscal Year 2017, increases in this category resulted from impairment of assets related to renovations in library and athletic facilities.
Targeted Investments Included in the Fiscal Year 2017 Results

Even while focused on addressing deficit spending and conserving cash, the FAS continued to invest strategically in its research and teaching mission in Fiscal Year 2017. Key examples of investments this past year are described below.

Dean’s Competitive Fund for Promising Scholarship
In the fall of 2016, Dean Smith launched the inaugural competition for the Dean’s Competitive Fund for Promising Scholarship, a targeted program that provides three types of funding: bridge funding, to allow faculty to continue work on previously funded research that does not currently have external funding; seed funding, to encourage faculty to pursue exciting new research directions that might not yet be ready to compete in traditional funding programs; and enabling subventions, to provide small funds in support of an external grant or to purchase or upgrade critical equipment. The intent is to provide support at critical stages of a project when external funding may not be attainable.

Over the two application cycles in Academic Year 2016-17, the fund provided over $2 million in support of 68 compelling faculty projects across all three FAS divisions and SEAS. Examples of the scholarship enabled by this fund include:

- Support to assemble a new research team to collect archival materials and oral interviews as a part of a study of the reception of film and radio propaganda in modern China.
- A high-risk, collaborative, interdisciplinary project to build a cloudless universal translator.
- A research project to understand how the politics of judicial nominations affects judicial legitimacy.
- A new project on climate history to analyze data from a unique European ice core and to integrate this scientific evidence of environmental changes with historical acknowledgment of those events, including the technologies, social adaptations, and political and economic strategies done in response to them.
- A high-risk and interdisciplinary project to quantify how important biological factors—such as the origin of life, species diversity, and distribution—are regulated by planetary and stellar parameters.
- Research using newly developed, state-of-the-art mobile and wearable monitoring technologies to study adolescents at high risk of suicidal thoughts and behaviors in order to significantly advance the understanding and prediction of suicidal behavior in this group.

Dean’s Leadership Fund-Sponsored Investments
The most flexible, current use and unrestricted funds supplied through the Campaign for the Arts and Sciences—combined with a budget process grounded in priority setting and savings where possible—supported a number of investments in Fiscal Year 2017, including:

- The Math Emerging Scholars Program, a pilot program that provides an intensive experience throughout the freshman year and into freshman summer.
- Investments in bioinformatics, research computing, institutional research, and research support.
- Continued support for the John Harvard Distinguished Science Fellowship Program.
- Support for the Institute for World Literature.
- More sustainable funding for the BLISS and SHARP undergraduate research programs.

College Investments in the Social Experience
In Fiscal Year 2017, the College continued to make significant strategic investments to improve the quality and inclusivity of the social experience for students, build student leadership, and promote faculty-student engagement outside the classroom. Working with the Office of Student Life, students spearheaded an expansion of options for participating in school spirit events beyond alcohol-focused parties in exclusive spaces. The social component of learning was also enhanced in the Summer Research Village, nurtured by the undergraduate scholars themselves while living together in a Harvard House during the summer. Investments in student leadership to support our goal of a more inclusive social experience included building and piloting a new curriculum for student leadership and doubling the size of the Diversity Peer Educator program from 12 to 24 students. Funding also provided support for undocumented students, including a graduate fellow position, programmatic funds, and a support group.
Capital projects in support of these goals are underway, including a major renovation of the Grays Hall basement to provide an accessible and welcoming home for the Office of BGLTQ Student Life and the Office for Equity, Diversity, and Inclusion. Upgrades to the Queen's Head Pub are underway, designed to pivot away from its identity as a “pub” and promote enhanced social integration of all class years.

Building on its success last year, the Office of Undergraduate Education managed a popular lunch and dinner program that enabled faculty members to meet groups of their students in neighborhood restaurants over a nice meal; more than 400 faculty members and 2,500 students participated. In the Houses, funding was made available to encourage innovative approaches to engaging faculty with students, including family-focused Senior Common Room events and dinners.

**Graduate Student Benefits and Support**

This past year, the Graduate School of Arts and Sciences launched the Center for Writing and Communicating Ideas, which offers tutoring support and workshops for GSAS students in any discipline who wish to improve their writing and presentation skills; and sponsored over 90 Research Workshops to provide a forum for sharing works in progress.

PhD students within GSAS continue to receive a financial aid funding package that includes tuition, stipend, health fees, and parental accommodation support for at least five years, an investment that can total more than $80,000 per year in direct funding. These benefits have grown at a 3.4 percent compound annual growth rate over the past five years. To provide additional flexibility for students, in Fiscal Year 2017 GSAS implemented significant enhancements to the standard funding packages offered to PhD students in FAS-based humanities and social sciences programs. These enhancements, a direct result of student and faculty feedback, introduced increased flexibility in when students may invoke elements of their financial aid, thus maximizing their benefit to students. Additionally, GSAS continued to provide enhanced transportation and family leave benefits introduced on behalf of graduate students in the prior year.

**Student Information System (SIS)**

In Fiscal Year 2017, the FAS made its final payment for the new [my.harvard](#) student information system, bringing to $23 million the total of FAS spending on the project. Deployed in 2016 in the FAS and other Harvard schools in the project’s first wave, [my.harvard](#) replaced approximately 40 outdated and unconnected systems, supplanted the paper study card process with an online course registration process, and more recently has enabled streamlined cross-registration. Going forward, the FAS's share of system operating costs will be $1.9 million a year. Eight of Harvard's schools are now using [my.harvard](#).

**Science Center/Cabot Library Transformation.** Following more than two years of planning and construction, the Science Center Atrium, now Pritzker Commons, and Cabot Science Library reopened in Fiscal Year 2017, revealing transparent and open architecture designed to foster collaboration and create a deep sense of connection between the social aspects of the Science Center and the study and research offerings of the library. Part of the renovation goal, which was guided by a committee of faculty and library staff with input from students, was to reinvigorate Cabot as a place that serves the present and future needs of the disciplines housed in the library and the needs of the campus at large. This transformative project was made possible by a generous gift from Penny S. Pritzker ’81 and Rose Pritzker Traubert ’16 EDM ’17.
**Classroom Modernization.** The FAS continued the program of upgrading and modernizing classrooms, making them more flexible in use and better equipped with technology to enhance teaching. Over $3.7 million was invested in eight buildings. Of particular note is the modernization of the large classroom in Harvard Hall, several rooms in the Science Center, and a large classroom in the Museum complex.

**Lavietes Basketball Pavilion.** The FAS and the Department of Athletics have completed the full renovation of and addition to the Lavietes basketball facility. The project provides new locker rooms, meeting rooms, and offices for the women’s and men’s basketball programs. The renovation includes new seating, concessions, and media area for the public, as well as a new scoreboard. The facility has been made fully accessible and will greatly enhance both the players’ and spectators’ experience. Funding for the renovation was provided by the President’s Office and philanthropy.

**Other Capital Investments.** Beyond the ongoing commitment to safety and facility renewal and the major projects described above, there were several major investments in facilities in support of our academic and research programs. A number of projects were undertaken to modernize and modify science lab facilities in support of research faculty; a new imaging suite was created for the Center for Nanoscale Systems in the LISE building; new facilities were created for the Center for African Studies and the African Language Program; investments were made in the College’s dormitories to better accommodate freshmen proctors; and modest investments were made to transform the former library space in William James Hall into a welcoming study and collaboration area. Over $3 million was invested to make our facilities more accessible, including beginning a major renovation to create accessible and welcoming new accommodations for the College’s Offices of BGLTQ Student Life and the Office for Equity, Diversity, and Inclusion in Grays Hall, to be completed in October 2017.

**House Renewal.** Fiscal Year 2017 saw continued progress in the FAS’s massive undertaking to renew the undergraduate residential Houses. Following two successful test projects (Stone Hall of Quincy House and McKinlock Hall of Leverett House), and the first full House renovation (Dunster House), Winthrop House was substantially completed by the end of Fiscal Year 2017 and was ready for move-in in September 2017. In line with the earlier projects, Winthrop House was executed successfully; in fact, it was completed early and below budget. The Winthrop House renovation includes two historic wood frame houses and a new building, Beren Hall, funded by a generous gift from Robert M. Beren AB ’47, MBA ’50; this enables all Winthrop House students to be moved out of overflow space and accommodated in the renovated House and provides space to bring the House up to the recommended number of academic and social amenities that were not formerly present in Winthrop.

Also in Fiscal Year 2017, design and planning concluded for Lowell House, and construction began immediately after Commencement, with completion expected in August 2019. Finally, the FAS announced that Adams House will be the sixth house to be renovated. Schematic design of Adams House is underway with construction scheduled to be phased over three years.

Based on the conclusions of the Strategic Assessment conducted in 2016, the pacing of the overall House Renewal program has been revised. Starting with Winthrop, the project timeline for each House will exceed one academic year. This has been deemed necessary for project execution, construction logistics related to the larger Houses remaining, and financial capacity. Additionally, as a result of the Strategic Assessment, the FAS has shifted from decapitalizing endowment funds for House Renewal to using debt.

In Fiscal Year 2017, the FAS invested $191.4 million in House Renewal project construction and planning, as reflected in fixed assets, and spent $8.1 million on House Renewal-related operations. As of June 30, 2017, the Corporation has authorized the FAS to spend $873.9 million in total on House Renewal.
Operational Enhancements

In Fiscal Year 2017, the FAS continued to partner with colleagues at the University level and in other schools in planning and implementing policy changes and clarifications, new administrative systems and upgrades of existing systems, and technology renewal. These efforts are designed to bring about operational or administrative efficiencies, address risks that have been identified through the University risk management process, and, in some cases, reduce costs. In addition to their standard portfolio of work, the FAS Administrative Operations team identified two key goals: creating a broad-based change management strategy to ensure effective adoption of new systems, applications, and policy across the FAS; and implementing a strategic, transparent, and fair review process for prioritizing and funding local FAS IT investments.

Balance Sheet View

As set forth in the Consolidated Balance Sheet, Total Net Assets for the FAS grew by $616.2 million or 3.4 percent during Fiscal Year 2017, from $17.9 billion at the close of Fiscal Year 2016 to $18.5 billion at the close of Fiscal Year 2017. In contrast, between Fiscal Year 2015 and Fiscal Year 2016 the FAS’s net assets fell by 5 percent or $862 million. The major factor contributing to the Fiscal Year 2017 increase in Total Assets was a gain in investment returns in Fiscal Year 2017, reflected in a 4.6 percent increase ($699.0 million) in Long-term investments (primarily endowment) after withdrawals for operation. Fixed assets, net of accumulated depreciation, increased by 9.1 percent or $171.1 million, reflecting an increase of more than $200 million of Construction in Progress (CIP). There was a 9.9 percent decrease (-$84.7 million) in pledges receivable, reflecting the FAS’s success in converting pledges to support the school into cash.

At June 30, the FAS’s Long-term investments (primarily endowment) stood at $15.9 billion, up 4.6 percent or $699.0 million from $15.2 billion a year ago though still slightly below the level of $16.2 billion two years ago. In contrast, this figure was $16.7 billion at the close of Fiscal Year 2008, before dipping to a low of $11.7 billion at the end of Fiscal Year 2009. At $15.9 billion, the FAS’s endowment position in nominal dollars at June 30, 2017, was closely approaching its pre-recession value at approximately 96 percent of what it was on June 30, 2008. The loss of real value over that time is significant, however, despite a relatively low interest environment. Adjusting for higher education inflation, the endowment would need to be $19.7 billion today, significantly more than the actual value of $15.9 billion, to have the same buying power today as in Fiscal Year 2008.

Total Liabilities increased by 16.2 percent or $160 million. Predominantly, this increase related to an increase in the FAS’s long-term debt portfolio of $151 million. Of this total, $127.7 million related to additional CIP loan costs incurred as the result of the completion of several house renewals. Additionally, $32.2 million of this increase was related to the decision to restructure the FAS’s internal debt schedule with the University.

The Outlook: Fiscal Year 2018 and Beyond

The FAS budget for Fiscal Year 2018 incorporates flat (zero growth) endowment distribution revenues, reflecting the guidance from the University based on Fiscal Year 2016’s earnings losses. Following on the heels of several increases that helped the FAS budget rebound somewhat from earlier losses, flat endowment revenue restored significant budgetary pressure to the development of the FAS budget for Fiscal Year 2018. To minimize use of scarce reserves while also making needed investments, the FAS held compensation increases to 1.5 percent for faculty and non-union employees and made other cuts and tradeoffs. As development of this budget drew to a close, the University proposed the debt restructuring described earlier in this report, in recognition of the FAS’s ongoing budget constraints, significant management actions already undertaken, and the inadvisability of operating without cash reserves.

At the time of our budget submission, we projected a Modified GAAP deficit of $53 million and an all-funds cash surplus of $17 million. To the extent possible, we will endeavor to improve on these results over the course of the year, as we have done in each of the last several years.

The financial performance and investments described in this report reflect the leadership, creativity, and hard work of colleagues throughout the FAS and business partners elsewhere at Harvard as well as the generosity of alumni.