

APPENDIX

FACULTY OF ARTS AND SCIENCES MANAGERIAL FINANCIAL REPORT

FISCAL YEAR 2015

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. A modified GAAP statement has been included as defined in footnote 22.

(in millions)

Faculty of Arts and Sciences
Consolidated
Statement of Activity
Fiscal Year Ending June 30, 2015

	note	Fiscal Year 2015			Fiscal Year 2014 ¹		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues							
Tuition and Fees		\$ 501.6	-	\$ 501.6	\$ 477.7	-	\$ 477.7
Less: Financial Aid	(1)	(97.1)	(143.2)	(240.3)	(87.2)	(148.7)	(235.9)
Net Tuition and Fees		404.5	(143.2)	261.3	390.5	(148.7)	241.8
Grants and Contracts - direct	(2)	-	152.3	152.3	-	163.0	163.0
Grants and Contracts - indirect		50.9	-	50.9	52.4	--	52.4
Endowment Distribution	(3)	218.8	424.3	643.1	213.0	409.7	622.7
Other Investment Income	(4)	0.7	3.2	3.9	1.0	2.9	3.9
Current-Use Gifts		38.6	81.9	120.5	40.4	59.0	99.4
Transfers from University - Academic Programs	(5)	22.1	25.6	47.7	21.9	24.1	46.0
Other Income	(6)	48.0	0.1	48.1	46.3	0.3	46.6
Total Revenues (a)		783.6	544.2	1,327.8	765.5	510.3	1,275.8
Expenses							
Salaries and Wages	(7)	256.6	229.1	485.7	241.4	223.5	464.9
Employee Benefits		72.3	56.3	128.6	71.6	57.0	128.6
Fellowships and Awards		19.3	53.9	73.2	16.3	56.7	73.0
Supplies, Materials and Equipment		30.8	39.8	70.6	26.1	42.9	69.0
Operations and Maintenance of Plant	(8)	123.4	39.4	162.8	116.8	38.1	154.9
Principal and Interest on Internal Debt		91.1	0.1	91.2	92.2	0.1	92.3
Transfers to University - University Assessment	(9)	42.7	-	42.7	41.8	-	41.8
Transfers to University - Academic Programs	(10)	18.8	-	18.8	18.2	-	18.2
Services Purchased		102.3	50.9	153.2	95.6	54.5	150.1
Other Expenses	(11)	27.1	41.8	68.9	32.2	34.4	66.6
Total Expenses (b)		784.4	511.3	1,295.7	752.2	507.2	1,259.4
Net Operating Results		(0.8)	32.9	32.1	13.3	3.1	16.4
Investment in Plant and Equipment, net (c)	(12)	(111.0)	(18.2)	(129.2)	(122.7)	(28.0)	(150.7)
Net Transfer (to)/from Endowment (d)	(13)	50.9	19.2	70.1	43.3	29.0	72.3
Other Changes in Net Assets (e)	(14)	12.7	2.6	15.3	(4.0)	(11.0)	(15.0)
Net Change in Fiscal Year Activity (a-b+c+d+e)		\$ (48.2)	\$ 36.5	\$ (11.7)	(70.1)	(6.9)	(77.0)

¹Certain FY2014 numbers have been restated for comparative purposes

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(in millions)

Faculty of Arts and Sciences
Core
Statement of Activity
Fiscal Year Ending June 30, 2015

	Fiscal Year 2015			Fiscal Year 2014 ¹		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 409.9	-	\$ 409.9	\$ 395.6	-	\$ 395.6
<i>Less: Financial Aid</i>	(89.7)	(135.0)	(224.7)	(80.8)	(140.6)	(221.4)
Net Tuition and Fees	320.2	(135.0)	185.2	314.8	(140.6)	174.2
Grants and Contracts - direct	-	120.6	120.6	-	124.3	124.3
Grants and Contracts - indirect	37.0	-	37.0	37.4	-	37.4
Endowment Distribution	182.9	304.0	486.9	178.3	293.7	471.9
Other Investment Income	0.2	2.3	2.5	0.3	2.0	2.3
Current-Use Gifts	37.8	65.5	103.3	39.5	45.0	84.5
Transfers from University - Academic Programs	9.8	23.8	33.6	8.5	22.3	30.9
Other Income	4.6	0.7	5.3	8.3	0.6	8.9
Total Revenues (a)	592.5	381.9	974.4	587.1	347.3	934.4
Expenses						
Salaries and Wages	192.7	164.4	357.1	180.5	160.2	340.7
Employee Benefits	54.6	39.3	93.9	54.3	39.8	94.1
Fellowships and Awards	18.3	49.6	67.9	15.9	52.4	68.3
Supplies, Materials and Equipment	18.0	18.6	36.6	13.2	21.3	34.5
Operations and Maintenance of Plant	96.8	27.0	123.8	93.8	26.0	119.8
Principal and Interest on Internal Debt	84.2	0.1	84.3	86.0	0.1	86.1
Transfers to University - University Assessment	32.6	-	32.6	32.0	-	32.0
Transfers to University - Academic Programs	15.9	-	15.9	14.4	-	14.4
Services Purchased	59.9	31.1	91.0	58.2	32.7	90.9
Other Expenses	10.5	26.7	37.2	15.1	21.7	36.8
Total Expenses (b)	583.5	356.8	940.3	563.4	354.2	917.6
Net Operating Results	9.0	25.1	34.1	23.7	(6.9)	16.8
Investment in Plant and Equipment, net (c)	(98.6)	(12.5)	(111.1)	(117.7)	(20.0)	(137.7)
Net Transfer (to)/from Endowment (d)	50.9	20.5	71.4	43.3	27.5	70.8
Other Changes in Net Assets (e)	9.3	4.7	14.0	(4.4)	(15.3)	(19.7)
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ (29.4)	\$ 37.8	\$ 8.4	\$ (55.1)	\$ (14.7)	\$ (69.8)

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

		June 30	
	note	2015	2014
ASSETS:			
Deposits with the University.....	(15)	\$ 664.1	\$ 704.9
Receivables			
Student Receivables		4.6	5.0
Other Receivables		28.5	32.9
Prepayments and deferred charges.....		18.2	19.4
Notes Receivable	(16)	139.7	145.1
Pledges Receivable		895.6	478.6
Fixed assets, net of accumulated depreciation	(17)	1,831.0	1,707.5
Interests in perpetual trusts held by others		83.1	86.8
Long-term investments (primarily endowment).....	(18)	16,096.9	15,843.9
TOTAL ASSETS		19,761.7	19,024.1
LIABILITIES:			
Accrued Expenses		25.9	14.1
Deferred Revenue and other liabilities		89.6	72.7
Internal Debt Obligations	(19)	875.3	869.4
Government loan advances	(20)	0.0	8.7
TOTAL LIABILITIES		990.8	964.9
TOTAL NET ASSETS	(21)	18,770.9	18,059.2
TOTAL LIABILITIES AND NET ASSETS		\$ 19,761.7	\$ 19,024.1

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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 \$240.3 million in FY15. This is an increase of \$4.4 million or 1.9 percent above FY14. Harvard's Affordability Initiative has dramatically reduced the amount families contribute to the cost of attending Harvard College and alleviated the need for students to take out loans. Families with annual incomes below \$65,000 now pay nothing towards the cost of their students' attendance at the College.

Since 2007, Harvard's investment in financial aid has climbed by more than 75 percent, significantly outpacing increases in tuition.

Financial aid presented in the table below excludes \$73.2 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY14 fellowships and awards were \$73.0 million.

(in millions)

	<u>FY 2015</u>	<u>FY 2014</u>
Undergraduate	\$ 170.1	\$ 170.2
Graduate	60.5	57.1
Continuing Education	<u>9.7</u>	<u>8.6</u>
Total Financial Aid	<u>\$ 240.3</u>	<u>\$ 235.9</u>

2. GRANTS AND CONTRACTS

FAS grants and contracts decreased by 5.7 percent in FY15 to \$203.2 million, from \$215.4 million in FY14. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2015			FY 2014		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 30.5	\$ 15.7	\$ 46.2	\$ 33.8	\$ 16.5	\$ 50.3
National Science Foundation (NSF)	29.0	13.4	42.4	28.4	13.8	42.2
Department of Defense (DoD)	16.7	6.5	23.2	21.1	7.0	28.1
Other	20.5	9.6	30.1	21.7	9.2	30.9
Subtotal - Federally-Sponsored Research	96.7	45.2	141.9	105.0	46.5	151.5
Non-Federally Sponsored Research	34.2	5.7	39.9	35.5	5.9	41.4
Other Sponsored Awards	21.4	0.0	21.4	22.5	0.0	22.5
Total Sponsored	\$ 152.3	\$ 50.9	\$ 203.2	\$ 163.0	\$ 52.4	\$ 215.4

Grants and contracts normally provide for the recovery of direct costs and partial recovery of indirect costs. Direct costs are those costs directly associated with the grant-funded activity (e.g., salaries of investigators, lab reagents and research materials). Indirect cost recoveries help to pay for related costs such as facilities, libraries and research administration. Indirect costs for federal projects are ordinarily recovered at a predetermined rate negotiated with the federal government. The negotiated federal rate for the FAS was 69 percent for organized on-campus research in FY15 and FY14. Non-federal sponsors' rates vary. The ratio of indirect costs to direct costs, referred to as the "effective indirect rate" for federally sponsored research in FAS is 46.7 percent in FY15, up from 44.3 percent in FY14. However, not all direct research expenses are eligible for indirect cost recovery such as capital equipment, subcontract expenditures and costs related to training grants.

3. ENDOWMENT DISTRIBUTION

FAS endowment returns made available for operations increased by 3.3 percent, to \$643.1 million in FY15 from \$622.7 million in FY14. Endowment income represented 48.4 percent of the FAS's total revenues, slightly lower than the FY14 share of 48.8 percent.

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

Combining all of the FAS endowment distributions, the aggregate FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 4.9 percent in FY15, down from 5.5 percent in FY14. FAS continues to utilize the endowment through decapitalizations as part of its strategy to fund current year costs, where possible and in accordance with donor terms, from restricted sources, allowing the

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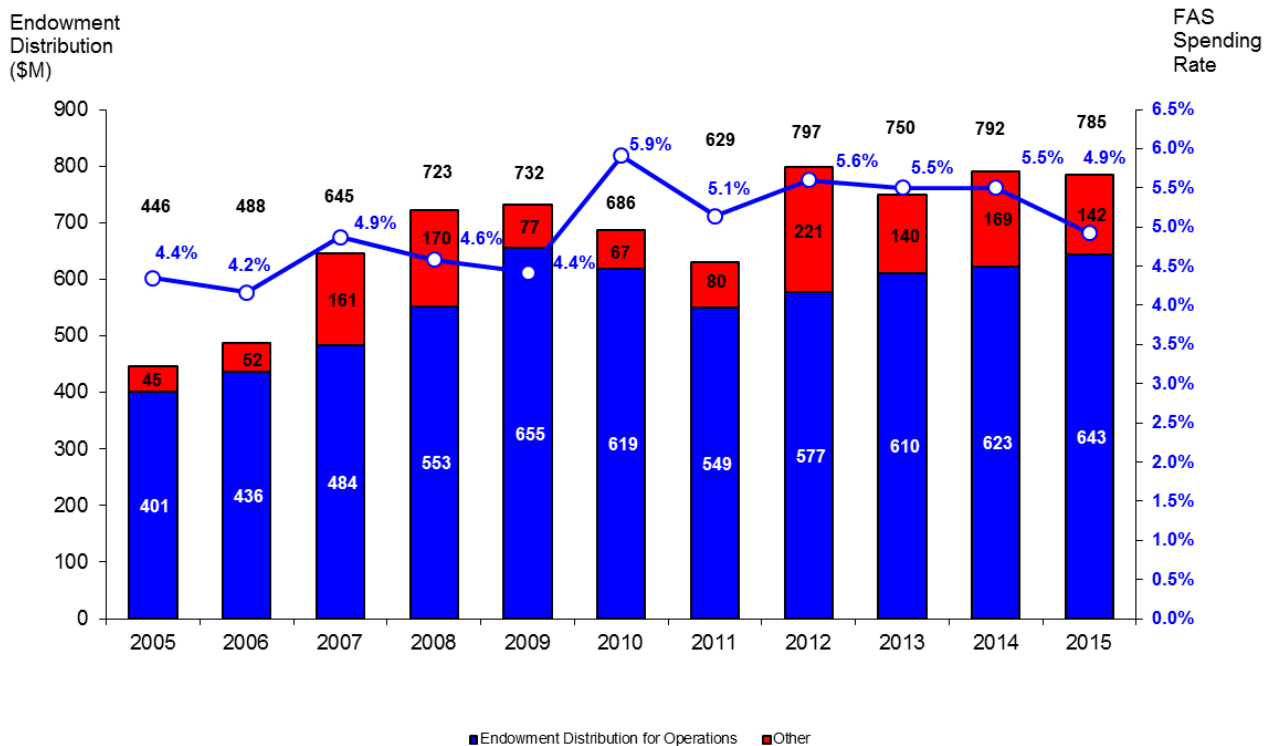
FAS to free up unrestricted resources to support the multi-year House Renewal Program. Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market		% of Market	
	FY 2015	Value	FY 2014	Value
Endowment distribution	\$ 643.1	4.0%	622.7	4.3%
Distribution for Central Administrative Operations	71.5	0.5%	69.6	0.5%
Endowment decapitalizations	70.1	0.4%	99.1	0.7%
Total spending from endowment	\$ 784.7	4.9%	791.4	5.5%

Beginning-of-year endowment market value¹ \$15,946.7 \$14,351.9

¹ Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY05. FY15 represents the first year since 2009 where the payout rate dipped below 5 percent due to the increase in the endowment market value as shown in footnote 18.



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4. OTHER INVESTMENT INCOME

Other investment income includes interest received on reserves, as well as short-term fund interest income and special investment returns. In FY15 the income received was \$3.9 million. Interest paid on fund balances was 0.11 percent in FY15, compared to .07 percent in FY14.

5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY15 the FAS received \$47.7 million in income transfers, from the Offices of the President and Provost and other central resources, including funding from the Harvard University Science and Engineering Committee (HUSEC). \$25.6 million was related to gifts and endowments held by the University but designated for the FAS for support of professorships, financial aid and academic programs. Another \$10.8 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$11.3 million of net income transfers to and from FAS supported undergraduate and graduate aid, university-wide initiatives that are housed within the FAS. Finally, a transfer of \$3.7 million was made from the FAS to the SIS (Student Information System) initiative.

6. OTHER INCOME

FAS Other Income included the following in FY15 and FY14:

<i>(in millions)</i>	FY15	FY14
Sales of services	10.1	9.8
Rental Income	7.3	8.0
Program and event income	6.7	6.0
Admissions application fees	5.2	4.9
Royalty income	4.7	4.0
Publication income	0.9	1.0
Miscellaneous income	13.2	12.9
Other Income	\$ 48.1	\$ 46.6

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

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7. SALARIES, WAGES AND BENEFITS

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY15, these costs represented 47.4 percent of total FAS expenses, consistent with the prior year. At \$614.3 million, this expense was 3.5 percent higher than FY14 spending of \$593.5 million.

The year-over-year increase for salaries and wages was 4.5 percent. The majority of this increase was linked to the annual merit increases for FAS faculty, exempt and union employees. The remainder of the increase was the result of other personnel transactions including modest position growth, filling of vacant positions, reclassifications and equity adjustments. The benefits component of the total was unchanged from the prior year due to the reduction in fringe benefit rates from FY14 to FY15 for all employees.

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

FAS operations and maintenance expense increased by \$7.9 million, or by 5.1 percent. At the end of FY15, the FAS campus included 268 buildings comprising approximately of 10.1 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$49.7 million); custodial, security and groundskeeping services (\$54.5 million); repairs and maintenance (\$48.3 million); and rental fees (net of recoveries) (\$10.3 million). The increase is primarily due to cleaning, groundskeeping, security and utilities due to the completed house renewal renovations in the College and new Fellows building at Dumbarton Oaks. Snow removal expenses increased significantly in FY15 due to the harsh winter. Rental costs increased reflecting the need for additional space in the Division of Continuing Education for the relocation of Harvard Institute for Learning in Retirement (HILR) and Professional Development Programs (PDP), and costs related to swing space for our undergraduate students.

9. TRANSFERS TO UNIVERSITY - UNIVERSITY ASSESSMENT

The University Assessment pays for services provided to the FAS by the University, including legal services, general accounting, and maintenance of enterprise IT systems. All faculties within Harvard University are assessed based on their relative share of expenses. In FY15 the University Assessment increased by 2.2 percent over FY14 from \$41.8 million to \$42.7 million.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY15, the FAS transferred \$18.8 million to the University for Academic Program Support; \$10.9 million was transferred for the Academic Initiatives Fund which began in FY00 and provides support for University initiatives at the discretion of the President and Provost. This contribution is made annually by each Harvard Faculty and is based on each Faculty's endowment market value as well as two-year trailing salary and wage

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expenses, exclusive of student salaries and salaries bearing overhead. Another \$7.9 million was transferred in FY15 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

In FY14, the FAS also transferred \$10.9 million to the Academic Initiatives Fund, and made a \$7.3 million contribution to HUSEC, for a total of \$18.2 million.

11. OTHER EXPENSES

Other expenses increased by 3.5 percent to \$68.9 million in FY15 from \$66.6 million in FY14. Major cost components in this category include: travel and events costs (\$30.3 million), telephone and photocopying costs (\$9.8 million), insurance (\$6.8 million) and postage (\$5.1 million). The balance (\$16.9 million) is made up of a number of miscellaneous costs.

12. INVESTMENT IN PLANT AND EQUIPMENT, NET

Investment in plant and equipment, net, represents the amount invested by the FAS in current and future year capital projects. FAS capital spending for buildings and equipment totaled \$256 million in FY15. Total capital expenditures included \$28 million for capital equipment. The balance of \$228 million was invested in improvements to plant, the largest of which include: \$140.3 million of spending on the House Renewal Program, \$28.3 million for renovations in the Sciences, \$10.4 million at Dumbarton Oaks primarily for the renovation of a new fellows building, \$9.1 million for improvements in William James Hall for program expansion and classroom renovations and \$5 million for various renovations planned in Athletics. The balance includes investments in existing plant, renewal projects in the College residential houses, and other capital renewal projects. The most significant increase from FY14 spending occurred for the House Renewal Program.

Funding for capital spending in FY15 and FY14 came from the following sources:

<i>(in millions)</i>	<u>FY 2015</u>	<u>FY 2014</u>
Total capital spending	\$ (256.0)	\$ (221.2)
Less: debt proceeds	51.5	49.2
Less: construction gifts	39.1	32.8
Less: funds designated for Construction in Progress/Other	36.2	(11.5)
Investment in plant and equipment, net	<u>(\$129.2)</u>	<u>(\$150.7)</u>

In FY15 the FAS applied \$101.2 million in funding for capital projects; \$21.3 million came from reserves held by the FAS Dean, Dumbarton Oaks, SEAS, the Division of Continuing Education and Library, another \$76.9 million was made available through endowment distributions and decapitalizations and \$3 million was provided through current use gifts. The \$28 million of equipment spending was funded through operating and sponsored funds.

13. NET TRANSFER (TO) / FROM ENDOWMENT

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

In FY15 the FAS took out an additional \$70.1 million from the endowment, representing the net of endowment capitalizations and decapitalizations. These proceeds were primarily used to fund unrestricted costs, and capital projects in order to free up resources for current and future House Renewal Program costs.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets in FY15 of \$15.3 million are primarily from distributions from split interest agreements.

In FY14 the decrease of \$15.0 million was made up of \$11.2 million from split interest agreements and \$6.5 in one-time transfers of funding from non-FAS units. These inflows were offset by a pay-down of internal debt of \$32.7 million, comprised of \$10.6 million in impairments as construction began at Dunster House and other assets in the process of being renovated; and \$22.1 million in early payments on debt as the FAS continued to free up debt capacity through endowment decaps for future House Renewal Program costs.

NOTES TO BALANCE SHEET

15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other GOA balances. On June 30th deposits decreased from \$704.9 million to \$664.1 million or \$40.8 million from the prior fiscal year. This was a result of applying reserve balances and prior year decapitalized funds towards capital projects as well as funding for the current year deficit. The General Operating Account (GOA) consists of the general or current funds of the University as well as the assets and liabilities related to student and faculty loans and facilities.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2015 and 2014 were as follows:

<i>(in millions)</i>	<u>FY 2015</u>	<u>FY 2014</u>
Student Notes Receivable:		
Perkins Loan Program	\$ 0.0	\$ 9.9
University Loan Program	32.7	31.9
Faculty and Staff	<u>107.0</u>	<u>103.3</u>
Total Notes Receivable	<u>\$ 139.7</u>	<u>\$ 145.1</u>

The Perkins Loan Program is a federal program in which loan funds are distributed by the government to universities which, in turn, provide loans to students. In FY15, the Perkins loan balances across the University were moved to the consolidated University balance sheet. 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. In addition to FY15 capital spending as noted in footnote 12, assets may increase or decrease through acquisitions, sales or impairments.

The table below summarizes FAS assets as of June 30, 2015 and 2014:

<i>(in millions)</i>	<u>FY 2015</u>	<u>FY 2014</u>
Research facilities	\$ 1,175.7	\$ 1,131.2
Classrooms and offices	462.3	458.8
Housing facilities	525.9	475.1
Libraries	207.0	205.7
Museums and assembly facilities	146.5	141.1
Athletic facilities	155.0	137.7
Service facilities	20.5	19.7
Capital leasehold improvements	164.7	73.6
Land	5.6	5.6
Construction in Progress	209.4	201.8
Equipment	361.6	385.0
Total fixed assets at cost	<u>3,434.2</u>	<u>3,235.3</u>
Less: accumulated depreciation	<u>(1,603.2)</u>	<u>(1,527.8)</u>
Total fixed assets, net	<u>\$ 1,831.0</u>	<u>\$ 1,707.5</u>

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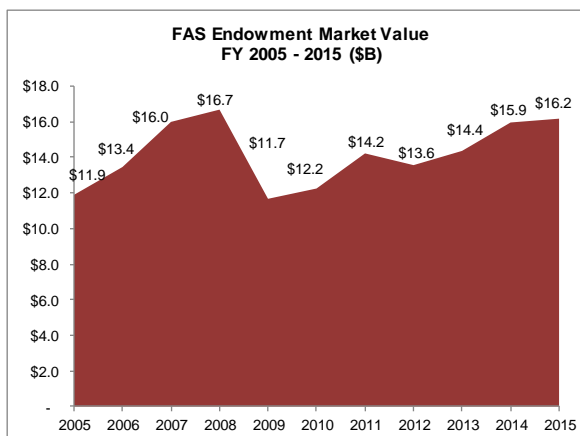
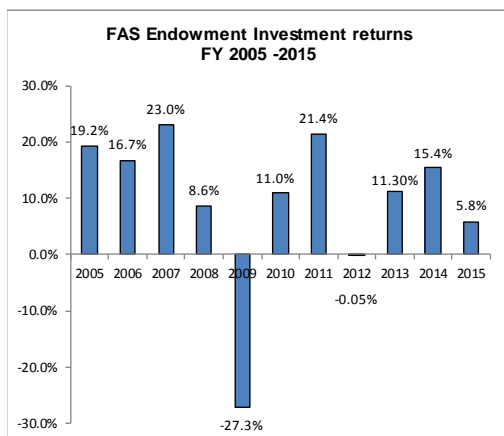
18. LONG-TERM INVESTMENTS (PRIMARYLY ENDOWMENT)

The FAS's investments, primarily in endowment, totaled \$16.1 billion at FY15 year end. The market value of these investments increased by \$.3 billion, or 2 percent, from June 30, 2014. This change is primarily driven by the combination of market returns of 5.8 percent, and the funding of the annual FY15 endowment distribution for operations. The change in market value includes all endowment activity: investment appreciation and depreciation, endowment distributions, new gifts, additions to endowment (capitalizations), and the use of appreciation for specific purposes approved by the Corporation (decapitalizations). Included in the General Operating Account Investments is the FAS investment in the Giant Magellan Telescope (GMT). In FY15 the FAS made a binding commitment of an additional \$19.8 million in addition to its previous investment of \$4 million; a corresponding liability for the unpaid commitment is included in other liabilities. As of June 30, 2015, that figure was \$15.8 million.

The table below summarizes the FAS's long-term investments as of June 30, 2015 and 2014:

<i>(in millions)</i>	FY 2015	FY 2014
Endowment investments	\$ 16,072.0	\$ 15,839.2
Gift fund investments	0.9	0.5
General Operating Account investments	24.0	4.2
Total Long term investments	\$ 16,096.9	\$ 15,843.9

The charts below summarize the FAS endowment market value over the past ten years from FY05 through FY15:



(1) The 6/30/15 FAS endowment market value of \$16.2 billion includes endowment investments of \$16.1 billion and .1 billion of undistributed investment earnings (this is exclusive of endowment pledges and interests in trusts held by others) when these two are added the FAS endowment market value on 6/30/15 is \$16.9 billion.

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19. INTERNAL DEBT OBLIGATIONS

At the end of FY15, the FAS's outstanding debt was \$875.3 million, \$5.9 million (.7 percent) more than in FY14.

<i>(in millions)</i>	<u>FY 2015</u>	<u>FY 2014</u>
Long-Term Debt	\$ 768.3	\$ 766.1
Faculty Loans	107.0	103.3
Total Debt and Notes Payable	\$ 875.3	\$ 869.4

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

20. GOVERNMENT LOAN ADVANCES

Government student loans are funded principally with federal advances to the University under the Perkins Loan Program and other programs. As noted in footnote 16, beginning in FY15 the Perkins Loan Program has been consolidated under the University and is represented on the University's financial statements only.

21. TOTAL NET ASSETS

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

22. MODIFIED GAAP PRESENTATION

Beginning in FY14 the FAS began reporting results on a Modified GAAP basis, which has been defined by the University. The Modified GAAP Statement of Activity includes operating revenues less operating expenses, including depreciation expense. Its purpose is to assess the ability of the FAS to generate sufficient revenue to cover all operating expenditures, including depreciation. The following FY15 Statement of Activity and

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Cash Flow includes a detailed crosswalk between the FAS's managerial view and the Modified GAAP University view. We also present a cash flow analysis which includes operating results as defined in the Modified GAAP view, investments in capital (investing activities), and the impact of other financing activities.

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(in millions)

Faculty of Arts and Sciences
Consolidated
Statement of Activity and Cash Flow
Fiscal Year Ending June 30, 2015

	Fiscal Year 2015		
	Total - All Funds	Adjustments ⁽¹⁾	Modified GAAP
Revenues			
Tuition and Fees	\$ 501.6		\$ 501.6
<i>Less: Financial Aid</i>	(240.3)		(240.3)
Net Tuition and Fees	261.3	-	261.3
Grants and Contracts - direct	152.3		152.3
Grants and Contracts - indirect	50.9		50.9
Endowment Distribution	643.1		643.1
Other Investment Income	3.9		3.9
Current-Use Gifts	120.5		120.5
Transfers from University - Academic Programs	47.7		47.7
Other Income	48.1		48.1
Income Reclasses		(18.8)	(18.8)
Total Revenues	1,327.8	(18.8)	1,309.0
Expenses			
Salaries and Wages	485.7		485.7
Employee Benefits	128.6		128.6
Fellowships and Awards	73.2		73.2
Supplies, Materials and Equipment	70.6		70.6
Operations and Maintenance of Plant	162.8		162.8
Principal and Interest on Internal Debt	91.2	(50.0)	41.2
Depreciation Expense		121.6	121.6
Transfers to University - University Assessment	42.7		42.7
Transfers to University - Academic Programs	18.8		18.8
Services Purchased	153.2		153.2
Other Expenses	68.9		68.9
Expense Reclasses		(18.8)	(18.8)
Total Expenses	1,295.7	52.8	1,348.6
Net Operating Results⁽²⁾	32.1	(71.6)	\$ (39.5)
Depreciation		121.6	121.6
Cash Flow Provided by (Used in) Operating Activities		50.0	82.1
Investment in Plant and Equipment, net	(129.2)	129.2	-
Capital Acquisitions and Expenditures		(256.0)	(256.0)
Cash Flow Provided By (Used in) Investing Activities		(126.8)	(256.0)
Principal Payments (internal loans)			(50.0)
Financing Activities			
Net Transfer (to)/from Endowment	70.1		70.1
New Debt (internal loans)		51.5	51.5
Principal Pre-payments (internal loans)		-	-
Construction Gifts Applied		39.1	39.1
Split Interest Agreements and Other Changes in Net Assets	15.3	36.2	51.5
Cash Flow Provided By (Used in) Financing Activities		126.8	212.2
Net Change in Fiscal Year Activity	\$ (11.7)	\$ 0.0	\$ (11.7)

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

(2) The University includes the loss on disposal of fixed assets in its operating results which are not included on the FAS Modified GAAP view. In FY15, FAS had \$10.9m in losses due to impairments of plant assets and equipment.

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FUND ACCOUNTING GLOSSARY OF TERMS

CURRENT-USE GIFTS:

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

FUNDS (BY TYPE):

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

Restricted Funds include grants and contracts, current-use gifts, and endowment funds with donor-imposed restrictions as well as certain endowment funds that have been internally-designated for a specific purpose. Funds with donor restrictions have constraining terms assigned by individual or foundation donors. Terms describe how the dollars should be spent. The FAS holds over 6,400 restricted endowment funds and over 2,200 restricted gift funds. Endowment funds are invested in the General Investment Account, a pooled fund managed by the Harvard Management Company. The distribution rate is set annually by the Corporation which strives to maintain the purchasing power of the endowment while providing a reliable source of current income.

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

FUND BALANCES:

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

General Operating Account (GOA):

The General Operating Account (GOA) consists of the general or current funds of the University as well as the assets and liabilities related to student and faculty loans and facilities. The GOA accepts, manages, and pays interest on deposits made by University departments; invests surplus working capital; makes loans; and arranges external financing for major capital projects. It is used to manage, control, and execute all University financial transactions, except for those related to investment activities conducted by HMC.