

# APPENDIX

## FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2017  
HARVARD UNIVERSITY

**This statement presents a financial view of the Faculty of Arts and Sciences of Harvard University operations including results of the John A. Paulson School of Engineering and Applied Sciences. The figures presented in the report have not been audited, are not intended to present financial results in accordance with generally accepted accounting principles (GAAP), and do not represent a subset of the University's financial statements and related footnotes. A modified GAAP statement has been included as defined in footnote 21.**

(in millions)

**Faculty of Arts and Sciences**  
**Consolidated**  
**Modified GAAP Statement of Activity**  
**Fiscal Year Ending June 30, 2017**

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
<b>Revenues</b>		
Tuition and Fees	\$557.0	\$533.9
<i>Less: Financial Aid</i>	<u>(260.0)</u>	<u>(247.7)</u>
Net Tuition and Fees	297.0	286.2
Grants and Contracts - direct	170.2	154.8
Grants and Contracts - indirect	54.1	51.3
Endowment Distribution	718.1	686.0
Other Investment Income	4.8	3.9
Current-Use Gifts	97.9	103.3
Transfers from University - Academic Programs	63.1	58.2
Other Income	49.0	53.4
Income Reclasses <sup>(1)</sup>	<u>(20.8)</u>	<u>(22.2)</u>
Total Revenues	1,433.4	1,374.9
<b>Expenses</b>		
Salaries and Wages	532.2	513.3
Employee Benefits	135.5	133.4
Fellowships and Awards	83.5	78.1
Supplies, Materials and Equipment	68.6	71.6
Operations and Maintenance of Plant	178.8	169.8
Principal and Interest on Internal Debt	38.0	37.6
Depreciation Expense	125.9	125.2
Transfers to University - University Assessment	45.6	44.0
Transfers to University - Academic Programs	20.8	22.2
Services Purchased	166.2	156.6
Other Expenses	70.8	68.2
Expense Reclasses <sup>(1)</sup>	<u>(20.8)</u>	<u>(22.1)</u>
Total Expenses	1,445.1	1,397.9
<b>Net Operating Results</b>	<u><b>(\$11.7)</b></u>	<u><b>(\$23.0)</b></u>

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

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(in millions)

**Faculty of Arts and Sciences**  
**Consolidated**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2017**

	note	Fiscal Year 2017			Fiscal Year 2016		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>							
Tuition and Fees		\$ 557.0	-	\$ 557.0	\$ 533.9	-	\$ 533.9
Less: Financial Aid	(1)	(108.3)	(151.7)	(260.0)	(108.2)	(139.5)	(247.7)
Net Tuition and Fees		448.7	(151.7)	297.0	425.7	(139.5)	286.2
Grants and Contracts - direct	(2)	-	170.2	170.2	-	154.8	154.8
Grants and Contracts - indirect		54.1	-	54.1	51.3	-	51.3
Endowment Distribution	(3)	239.5	478.6	718.1	231.0	455.0	686.0
Other Investment Income	(4)	0.7	4.1	4.8	0.6	3.3	3.9
Current-Use Gifts		32.9	65.0	97.9	35.0	68.3	103.3
Transfers from University - Academic Programs	(5)	30.7	32.4	63.1	29.2	29.0	58.2
Other Income	(6)	49.6	(0.6)	49.0	53.2	0.2	53.4
Total Revenues (a)		856.2	598.0	1,454.2	826.0	571.1	1,397.1
<b>Expenses</b>							
Salaries and Wages	(7)	290.9	241.3	532.2	279.9	233.4	513.3
Employee Benefits		77.3	58.2	135.5	76.4	57.0	133.4
Fellowships and Awards		24.8	58.7	83.5	21.2	56.9	78.1
Supplies, Materials and Equipment		29.5	39.1	68.6	33.0	38.6	71.6
Operations and Maintenance of Plant	(8)	134.3	44.5	178.8	126.6	43.2	169.8
Principal and Interest on Internal Debt		93.9	0.1	94.0	92.6	0.1	92.7
Transfers to University - University Assessment	(9)	45.6	-	45.6	44.0	-	44.0
Transfers to University - Academic Programs	(10)	20.8	-	20.8	22.2	-	22.2
Services Purchased		108.0	58.2	166.2	105.1	51.5	156.6
Other Expenses	(11)	27.0	43.9	70.9	27.0	41.3	68.3
Total Expenses (b)		852.1	544.0	1,396.1	828.0	522.0	1,350.0
<b>Net Operating Results</b>		<b>4.1</b>	<b>54.0</b>	<b>58.1</b>	<b>(2.0)</b>	<b>49.1</b>	<b>47.1</b>
<b>Investment in Plant and Equipment, net (c)</b>	(12)	<b>(19.7)</b>	<b>(14.6)</b>	<b>(34.3)</b>	<b>(36.6)</b>	<b>(28.1)</b>	<b>(64.7)</b>
<b>Net Transfer (to)/from Endowment (d)</b>	(13)	<b>2.8</b>	<b>(2.5)</b>	<b>0.3</b>	<b>14.1</b>	<b>(11.5)</b>	<b>2.6</b>
<b>Other Changes in Net Assets (e)</b>	(14)	<b>28.0</b>	<b>7.9</b>	<b>35.9</b>	<b>(4.3)</b>	<b>6.4</b>	<b>2.1</b>
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>		<b>\$ 15.2</b>	<b>\$ 44.8</b>	<b>\$ 60.0</b>	<b>(28.8)</b>	<b>\$ 15.9</b>	<b>(12.9)</b>

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**Faculty of Arts and Sciences**  
**Core**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2017**

	<u>Fiscal Year 2017</u>			<u>Fiscal Year 2016</u>		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>						
Tuition and Fees	\$ 441.6	-	\$ 441.6	\$ 430.3	-	\$ 430.3
<i>Less: Financial Aid</i>	(98.1)	(143.0)	(241.1)	(99.8)	(131.0)	(230.8)
Net Tuition and Fees	343.5	(143.0)	200.5	330.5	(131.0)	199.5
Grants and Contracts - direct	-	133.0	133.0	-	122.6	122.6
Grants and Contracts - indirect	37.7	-	37.7	36.3	-	36.3
Endowment Distribution	199.1	342.9	542.0	192.7	325.6	518.3
Other Investment Income	0.2	2.9	3.1	0.2	2.2	2.4
Current-Use Gifts	32.3	47.6	79.9	34.3	48.6	82.9
Transfers from University - Academic Progr.	14.0	28.9	42.9	12.5	25.4	37.9
Other Income	2.2	0.7	2.9	6.1	1.2	7.3
<b>Total Revenues (a)</b>	<b>629.0</b>	<b>413.0</b>	<b>1,042.0</b>	<b>612.6</b>	<b>394.6</b>	<b>1,007.2</b>
<b>Expenses</b>						
Salaries and Wages	215.7	172.1	387.8	208.4	166.0	374.4
Employee Benefits	58.0	40.5	98.5	57.1	40.0	97.1
Fellowships and Awards	23.3	53.8	77.1	20.1	52.2	72.3
Supplies, Materials and Equipment	17.5	17.0	34.5	19.0	17.2	36.2
Operations and Maintenance of Plant	105.7	29.1	134.8	101.1	29.0	130.1
Principal and Interest on Internal Debt	86.3	0.1	86.4	85.5	0.1	85.6
Transfers to University - University Assessme	34.8	-	34.8	33.6	-	33.6
Transfers to University - Academic Programs	15.3	-	15.3	15.2	-	15.2
Services Purchased	61.1	37.4	98.5	58.9	32.9	91.8
Other Expenses	6.8	28.3	35.1	8.2	27.6	35.8
<b>Total Expenses (b)</b>	<b>624.5</b>	<b>378.3</b>	<b>1,002.8</b>	<b>607.1</b>	<b>365.0</b>	<b>972.1</b>
<b>Net Operating Results</b>	<b>4.5</b>	<b>34.7</b>	<b>39.2</b>	<b>5.5</b>	<b>29.6</b>	<b>35.1</b>
<b>Investment in Plant and Equipment, net (c)</b>	<b>(14.0)</b>	<b>(10.9)</b>	<b>(24.9)</b>	<b>(33.1)</b>	<b>(20.5)</b>	<b>(53.6)</b>
<b>Net Transfer (to)/from Endowment (d)</b>	<b>2.8</b>	<b>0.1</b>	<b>2.9</b>	<b>14.1</b>	<b>1.4</b>	<b>15.5</b>
<b>Other Changes in Net Assets (e)</b>	<b>28.1</b>	<b>5.3</b>	<b>33.4</b>	<b>(4.3)</b>	<b>4.8</b>	<b>0.5</b>
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>	<b>\$ 21.4</b>	<b>\$ 29.2</b>	<b>\$ 50.6</b>	<b>\$ (17.8)</b>	<b>\$ 15.3</b>	<b>\$ (2.5)</b>

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

(in millions)

		June 30	
	note	2017	2016
<b>ASSETS:</b>			
Deposits with the University.....	(15)	\$ 641.2	\$ 654.3
Receivables			
Student Receivables .....		5.3	4.9
Other Receivables .....		23.6	23.9
Prepayments and deferred charges.....		15.7	20.2
Notes Receivable .....	(16)	149.0	144.5
Pledges Receivable .....		768.4	853.1
Fixed assets, net of accumulated depreciation .....	(17)	2,041.8	1,870.7
Interests in perpetual trusts held by others .....		97.3	93.5
Long-term investments (primarily endowment).....	(18)	15,929.6	15,230.6
<b>TOTAL ASSETS</b>		<b>19,671.9</b>	<b>18,895.7</b>
<b>LIABILITIES</b>			
Accrued Expenses .....		28.8	21.9
Deferred Revenue and other liabilities .....		91.1	89.5
Internal Debt Obligations .....	(19)	1,027.1	875.6
<b>TOTAL LIABILITIES</b>		<b>1,147.0</b>	<b>987.0</b>
<b>TOTAL NET ASSETS</b>	(20)	<b>18,524.9</b>	<b>17,908.7</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 19,671.9</b>	<b>\$ 18,895.7</b>

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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 \$260 million in FY17. This is an increase of \$12.3 million or 5.0 percent above FY16. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded almost \$1.8 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased over 125%, from \$80 million in 2005 to \$180 million in 2017. One in five undergraduate families is not required to contribute to the cost of their child's education, as they have annual incomes of less than \$65,000, and approximately 55 percent of students overall receive financial aid. Harvard College financial aid awards consist of grants; students are never required to take out loans to cover the cost of their education, although they are expected to contribute through academic year or summer earnings.

Financial aid presented in the table below excludes \$83.5 million of fellowships and awards, made primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY16 fellowships and awards were \$78.1 million.

*(in millions)*

	<u>FY 2017</u>	<u>FY 2016</u>
Undergraduate	\$ 180.1	\$ 173.3
Graduate	67.8	63.7
Continuing Education	<u>12.1</u>	<u>10.7</u>
Total Financial Aid	<u>\$ 260.0</u>	<u>\$ 247.7</u>

### 2. GRANTS AND CONTRACTS

FAS grants and contracts increased by 8.8 percent in FY17 to \$224.3 million from \$206.1 million in FY16. Grants and contracts are comprised of the following:

## FAS Consolidated Sponsored Funding by Agency (excluding HSCI)

<i>(in millions)</i>	FY 2017			FY 2016		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 30.9	\$ 15.3	\$ 46.2	\$ 32.1	\$ 15.9	\$ 48.0
National Science Foundation (NSF)	30.3	13.9	44.2	30.8	13.7	44.5
Department of Defense (DoD)	19.0	7.2	26.2	16.0	6.4	22.4
Other	24.3	11.5	35.8	19.1	9.8	28.9
Subtotal - Federally-Sponsored Research	104.5	47.9	152.4	98.0	45.8	143.8
Non-Federally Sponsored Research	44.9	6.2	51.1	34.9	5.5	40.4
Other Sponsored Awards	20.8	0.0	20.8	21.9	0.0	21.9
<b>Total Sponsored</b>	<b>\$ 170.2</b>	<b>\$ 54.1</b>	<b>\$ 224.3</b>	<b>\$ 154.8</b>	<b>\$ 51.3</b>	<b>\$ 206.1</b>

Grants and contracts normally provide for the recovery of direct costs and partial recovery of indirect costs. Direct costs are those costs directly associated with the grant-funded activity (e.g., salaries of investigators, lab reagents and research materials). Indirect cost recoveries help to pay for related costs such as facilities, libraries and research administration. Indirect costs for federal projects are ordinarily recovered at a predetermined rate negotiated with the federal government. The negotiated federal rate for the FAS was 69 percent for organized on-campus research in FY17 and FY16. Non-federal sponsors' rates vary. The ratio of indirect costs to direct costs, referred to as the "effective indirect rate" for federally sponsored research in FAS was 45.8 percent in FY17, down slightly from 46.7 percent in FY16. 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 \$32.1 million or 4.7 percent, to \$718.1 million in FY17 from \$686 million in FY16. Endowment income represented 49.4 percent of the FAS's total revenues, consistent with the FY16 share of 49.2 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

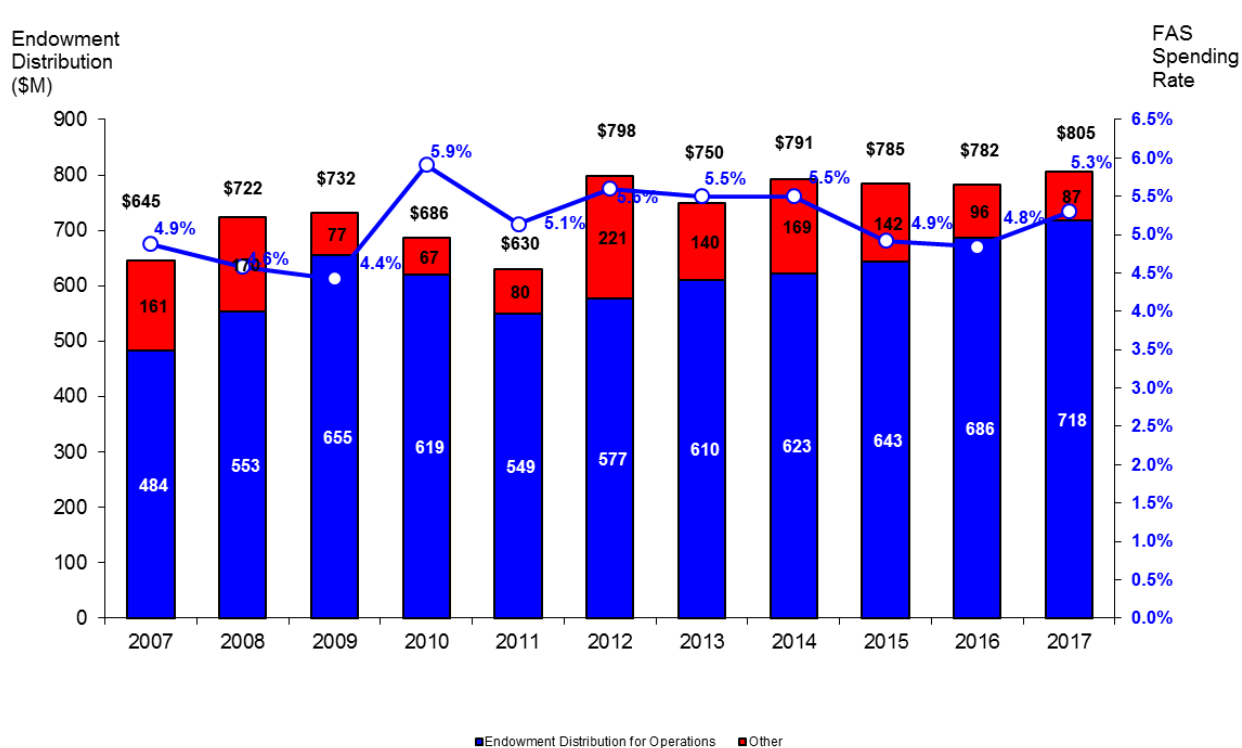
5.3 percent in FY17, up from 4.8 percent in FY16. In FY17 FAS ended its use of endowment decapitalizations to fund the multi-year House Renewal Program.

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

(in millions)	% of Market		% of Market	
	FY 2017	Value	FY 2016	Value
Endowment distribution	\$ 718.1	4.7%	\$ 686.0	4.2%
Distribution for Central Administrative Operations	79.7	0.5%	76.2	0.5%
Endowment decapitalizations	7.5	0.0%	20.2	0.1%
<b>Total payout from endowment</b>	<b>\$ 805.3</b>	<b>5.3%</b>	<b>\$ 782.4</b>	<b>4.8%</b>
Beginning-of-year endowment market value <sup>1</sup>	\$ 15,263.5		\$ 16,161.0	

<sup>1</sup> Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY07.



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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 FY17 the income received was \$4.8 million, 24% higher than in FY16. Interest paid on fund balances was 0.23 percent in FY17, compared to 0.08 percent in FY16.

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

In FY17 the FAS received \$63.1 million in income transfers from the Offices of the President and Provost and other central resources, including funding from the Harvard University Science and Engineering Committee (HUSEC). Of this total, \$32.6 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 \$11.3 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$19.2 million of net income transfers to and from FAS supported undergraduate and graduate aid, university-wide initiatives that are housed within the FAS.

#### 6. OTHER INCOME

FAS Other Income included the following in FY17 and FY16:

*(in millions)*

	<u>FY 2017</u>	<u>FY 2016</u>
Royalty income	\$ 5.2	\$ 10.5
Sales of services	9.6	9.7
Rental Income	8.0	8.2
Admissions application fees	5.6	5.6
Program and event income	5.6	4.7
Publication income	0.7	0.8
Miscellaneous income	<u>14.3</u>	<u>13.9</u>
<b>Other Income</b>	<b>\$ 49.0</b>	<b>\$ 53.4</b>

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Miscellaneous income includes library fees, other fines and fees, interest on mortgages and commissions. Royalty income decreased by \$5.3 million in FY17 to pre-FY16 levels.

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

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY17 these costs represented 47.9 percent of total FAS expenses, the same percentage as the prior year. At \$667.7 million, this expense was 3.2 percent higher than FY16 spending of \$646.7 million.

The year-over-year increase for salaries and wages was 3.7 percent. The majority of this increase was linked to the annual merit increases for FAS faculty, exempt and union employees averaging just under 3 percent. The remainder of the increase was the result of personnel transactions including modest position growth, filling of vacant positions, reclassifications, equity adjustments and supplemental compensation for Faculty. The benefits component of the total increased by 1.6 percent from the prior year.

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

FAS operations and maintenance expense increased by \$9 million or 5.3 percent, from \$169.8 million in FY16 to \$178.8 million in FY17. At the end of FY17 the FAS campus included 267 owned buildings comprising approximately 10 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$53.2 million); custodial, security and grounds keeping services (\$59 million); repairs and maintenance (\$50.7 million); and rental and other fees (net of recoveries) (\$15.9 million). Besides normal inflationary increases, other increases were focused in three areas: (1) House Renewal (2) acquisition of additional space for the Division of Continuing Education (DCE) for its expanded programs (3) Research Computing for MGHPC Holyoke Facility (4) outsourcing of security services at Dumbarton Oaks and (5) outsourcing custodial staff at SEAS.

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

The University Assessment pays for services provided to the FAS by the University, including legal services, general accounting, and maintenance of enterprise IT systems. Each Faculty within Harvard University is assessed based on its relative share of expenses. In FY17 the University Assessment increased by 3.6 percent over FY16, from \$44.0 million to \$45.6 million.

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

In FY17 the FAS transferred \$20.8 million to the University for Academic Program Support. Of this total, \$11.9 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 its two-year trailing salary and wage expense (exclusive of student salaries and salaries bearing overhead). Another \$7.6 million was transferred in FY17 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC). FAS contributed \$1.25 million to the SIS (Student Information System) initiative in FY17.

In FY16 the FAS transferred \$11.4 million to the Academic Initiatives Fund, made a contribution of \$8 million to HUSEC and \$2.75 million to SIS for a total of \$22.2 million.

## **11. OTHER EXPENSES**

Other expenses increased by 3.8 percent to \$70.9 million in FY17 from \$68.3 million in FY16. Major cost components in this category include: travel and events costs (\$31.4 million), other institutional activity (\$10 million), telephones and photocopying costs (\$9.8M) and insurance/losses (\$6.6M). The balance (\$13.1 million) was made up of a number of miscellaneous costs.

## **12. INVESTMENT IN PLANT AND EQUIPMENT, NET**

Investment in plant and equipment, net, represents the amount invested by the FAS in current and future year capital projects. FAS capital spending for buildings and equipment totaled \$317.0 million in FY17. Capital expenditures for equipment comprised \$26.3 million of this total. The balance of \$290.7 million was invested in improvements to plant, the largest of which included: \$191.4 million of spending on the House Renewal Program, \$16.9 million for Athletics related projects; and \$48.4 million for programmatic, maintenance and classroom renovations. The balance includes investments in existing plant, renewal and life safety projects in the College residential houses, and other capital renewal projects.

Funding for capital spending in FY17 and FY16 came from the following sources:

	<u>FY 2017</u>	<u>FY 2016</u>
Total Capital Spending	(\$317.0)	(\$174.4)
Less: Debt Proceeds	178.9	58.1
Less: Construction Gifts	51.2	80.8
Less: Funds Designated for Construction Gifts/ Other	52.6	(29.2)
<b>Total</b>	<u><u>(\$34.3)</u></u>	<u><u>(\$64.7)</u></u>

In addition to debt proceeds and construction gifts, the FAS spent \$8 million for capital projects in FY17. Of this total, \$7.4 million came from reserves held by the FAS Dean, Dumbarton Oaks, SEAS, the Division of Continuing Education and Library, another \$0.4 million was made available through a combination of endowment distributions and decapitalizations, and \$0.2 million was provided through current use gifts and sponsored funds. The \$25.3 million of equipment spending was funded through operating funds and debt.

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

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

In FY17 the FAS withdrew an additional \$0.3 million from the endowment, representing endowment decapitalizations net of capitalizations. The equivalent figure in FY16 was \$2.6 million. The change is driven by FY16 activity that is not repeated in FY17 including one time capitalization of reserves in SEAS and the strategic decision to end decapitalization of reserves to fund House Renewal.

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

Other changes in net assets in FY17 totaled \$35.9 million. This includes \$32.3 million related to restructuring the FAS's internal debt schedule with the University. Additionally, there were \$8.9 million of distributions from split interest agreements and other changes of \$1.9 million, offset by a \$7.3 million paydown of debt related to renovations, most notably Lowell House.

In FY16 other changes in net assets of \$2.1 million were primarily made up of distributions from split interest agreements.

## NOTES TO BALANCE SHEET

### 15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other General Operating Account (GOA) balances. The GOA consists of the general or current funds of the University, as well as the assets and liabilities related to student and faculty loans and facilities.

On June 30, 2017, deposits were \$641.2 million, down \$13.1 million from \$654.3 million in the prior year. While the FAS's unrestricted cash balances increased year-over-year (as more fully described in the Management Discussion and Analysis portion of this report), offsetting reductions that occurred in accounts payable and funds held in construction in process accounts.

### 16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2017 and 2016 were as follows:

<i>(in millions)</i>	<u>FY 2017</u>	<u>FY 2016</u>
Student Notes Receivable:		
University Loan Program	\$ 33.6	\$ 33.1
Faculty and Staff	<u>115.4</u>	<u>111.4</u>
<b>Total Notes Receivable</b>	<b><u>\$ 149.0</u></b>	<b><u>\$ 144.5</u></b>

Faculty and staff notes receivable are primarily mortgages and educational loans. Mortgages include shared appreciation loans, loans that bear interest at the Applicable Federal Rate (AFR), and zero-interest loans. In addition, certain mortgages bear interest at the current market rate, which may be subsidized for an initial period. Educational loans are primarily zero-interest loans.

## 17. FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION

Fixed assets are recorded at cost or fair market value on the date of acquisition, net of accumulated depreciation. Depreciation is computed using the straight-line method computed over the useful life of the asset. In addition to FY17 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, 2017 and 2016:

<i>(in millions)</i>	<b>FY 2017</b>	<b>FY 2016</b>
Research facilities	\$1,228.0	\$1,210.5
Classrooms and offices	487.4	476.1
Housing facilities	668.8	671.1
Libraries	212.2	212.0
Museums and assembly facilities	168.8	152.1
Athletic facilities	150.5	157.5
Service facilities	29.9	20.3
Capital leasehold improvements	164.0	164.3
Land	5.6	5.6
Construction in Progress	320.8	120.1
Equipment	405.7	388.2
Total fixed assets at cost	3,841.7	3,577.8
Less: accumulated depreciation	(1,799.9)	(1,707.1)
<b>Total fixed assets, net</b>	<b>\$2,041.8</b>	<b>\$1,870.7</b>

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In FY17 the largest increase in the FAS Physical Plant was in construction in progress, resulting from the ongoing house renewal project.

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

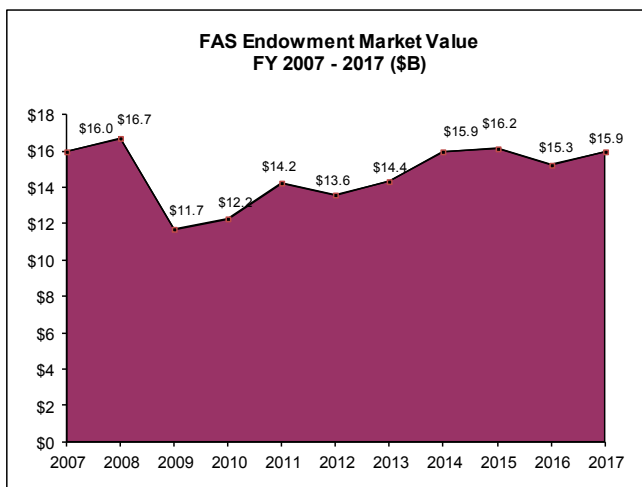
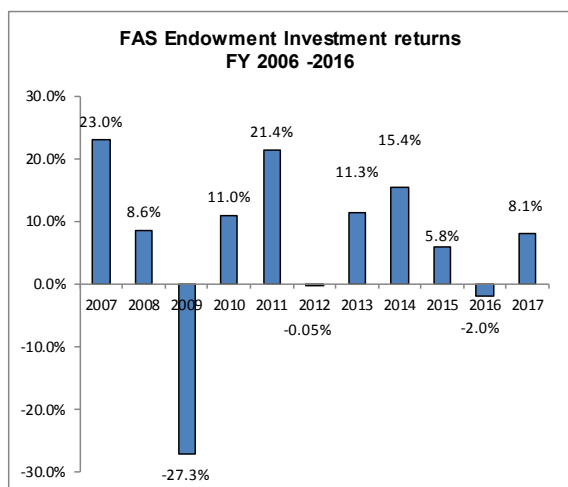
The FAS's investments, primarily endowment, totaled \$15.9 billion at FY17 year end. The market value of these investments decreased by \$.7 billion, or 4.6 percent, from June 30, 2016. This change was primarily driven by the combination of market returns of 8.1% percent and the funding of the annual FY17 endowment distribution for operations. The change in market value includes all endowment activity: investment appreciation and depreciation, endowment distributions, new gifts, additions to endowment (capitalizations), and the use of appreciation for specific purposes approved by the Corporation (decapitalizations). Included in the General Operating Account Investments was the FAS investment in the Giant Magellan Telescope (GMT).

The table below summarizes the FAS's long-term investments as of June 30, 2017 and 2016:

<i>(in millions)</i>	<u>FY 2017</u>	<u>FY 2016</u>
Endowment investments	\$ 15,904.1	\$ 15,205.1
Gift fund investments	1.5	1.5
General Operating Account investments	<u>24.0</u>	<u>24.0</u>
<b>Total Long term investments</b>	<b><u>15,929.6</u></b>	<b><u>\$ 15,230.6</u></b>



The charts below summarize the FAS endowment market value over the past ten years from FY07 through FY17:



(1) The 6/30/17 FAS endowment market value of \$15.9 billion includes endowment investments of \$15.9 billion and 38 million 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 6/30/17 is \$16.6 billion.

## 19. INTERNAL DEBT OBLIGATIONS

At the end of FY17 the FAS's outstanding debt was \$1,027.1 million, \$151.5 million (17.3 percent) more than in FY16.

<i>(in millions)</i>	<u>FY 2017</u>	<u>FY 2016</u>
Long-Term Debt	\$ 911.7	\$ 764.1
Faculty Loans	115.4	111.5
<b>Total Debt and Notes Payable</b>	<b>\$ 1,027.1</b>	<b>\$ 875.6</b>

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. In FY17 the FAS long-term debt portfolio increased by \$151 million. \$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 FAS's internal debt schedule with the University.

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## **20. TOTAL NET ASSETS**

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

## **21. 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 FY17 Statement of Activity and Cash Flow includes a detailed crosswalk between the FAS's managerial view and the Modified GAAP University view. We also present a cash flow analysis which includes operating results as defined in the Modified GAAP view, investments in capital (investing activities), and the impact of other financing activities.

(in millions)

Faculty of Arts and Sciences  
**Consolidated**  
 Statement of Activity and Cash Flow  
 Fiscal Year Ending June 30, 2017

	Fiscal Year 2017		
	Total - All Funds	Adjustments <sup>(1)</sup>	Modified GAAP
<b>Revenues</b>			
Tuition and Fees	\$ 557.0		\$ 557.0
<i>Less: Financial Aid</i>	(260.0)		(260.0)
Net Tuition and Fees	297.0	-	297.0
Grants and Contracts - direct	170.2		170.2
Grants and Contracts - indirect	54.1		54.1
Endowment Distribution	718.1		718.1
Other Investment Income	4.8		4.8
Current-Use Gifts	97.9		97.9
Transfers from University - Academic Programs	63.1		63.1
Other Income	49.0		49.0
Income Reclasses		(20.8)	(20.8)
Total Revenues	1,454.2	(20.8)	1,433.4
<b>Expenses</b>			
Salaries and Wages	532.2		532.2
Employee Benefits	135.5		135.5
Fellowships and Awards	83.5		83.5
Supplies, Materials and Equipment	68.6		68.6
Operations and Maintenance of Plant	178.8		178.8
Principal and Interest on Internal Debt	94.0	(56.1)	38.0
Depreciation Expense		125.9	125.9
Transfers to University - University Assessment	45.6		45.6
Transfers to University - Academic Programs	20.8		20.8
Services Purchased	166.2		166.2
Other Expenses	70.8		70.8
Expense Reclasses		(20.8)	(20.8)
Total Expenses	1,396.0	49.1	1,445.1
<b>Net Operating Results<sup>(2)</sup></b>	<b>58.2</b>	<b>(69.9)</b>	<b>\$ (11.7)</b>
Depreciation		125.9	125.9
<b>Cash Flow Provided by (Used in) Operating Activities</b>		<b>56.1</b>	<b>114.2</b>
<b>Investment in Plant and Equipment, net</b>	<b>(34.3)</b>	<b>34.3</b>	<b>-</b>
Capital Acquisitions and Expenditures		(317.1)	(317.1)
<b>Cash Flow Provided By (Used in) Investing Activities</b>		<b>(282.7)</b>	<b>(317.1)</b>
<b>Principal Payments (internal loans)</b>			<b>(56.1)</b>
<b>Financing Activities</b>			
Net Transfer (to)/from Endowment	0.2		0.2
New Debt (internal loans)		178.9	178.9
Principal Pre-payments (internal loans)		(7.3)	(7.3)
Construction Gifts Applied		46.4	46.4
Split Interest Agreements and Other Changes in Net Assets	35.9	64.7	100.6
<b>Cash Flow Provided By (Used in) Financing Activities</b>		<b>282.7</b>	<b>318.9</b>
<b>Net Change in Fiscal Year Activity</b>	<b>\$ 60.0</b>	<b>\$ (0.0)</b>	<b>\$ 60.0</b>

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

(2) The University includes the loss on disposal of fixed assets in its operating results which are not included on the FAS Modified GAAP view.

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## **FUND ACCOUNTING GLOSSARY OF TERMS**

### **CURRENT-USE GIFTS:**

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

### **FUNDS (BY TYPE):**

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

**Restricted Funds** include grants and contracts, current-use gifts, and endowment funds with donor-imposed restrictions as well as certain endowment funds that have been internally-designated for a specific purpose. Funds with donor restrictions have constraining terms assigned by individual or foundation donors. Terms describe how the dollars should be spent. The FAS holds over 6,500 restricted endowment funds and over 2,300 restricted gift funds. Endowment funds are invested in the General Investment Account, a pooled fund managed by the Harvard Management Company. The distribution rate is set annually by the Corporation which strives to maintain the purchasing power of the endowment while providing a reliable source of current income.

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

### **FUND BALANCES:**

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

related to faculty growth, new buildings, curricular initiatives, study abroad and other strategic investments.

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