

APPENDIX

FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2018

HARVARD UNIVERSITY

This report 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.

(in millions)

Faculty of Arts and Sciences
Consolidated
Modified GAAP Statement of Activity
Fiscal Year Ending June 30, 2018

	<u>Fiscal Year 2018</u>	<u>Fiscal Year 2017</u>
Revenues		
Tuition and Fees	\$ 584.2	\$ 557.0
<i>Less: Financial Aid</i>	<u>(274.4)</u>	<u>(260.0)</u>
Net Tuition and Fees	309.8	297.0
Grants and Contracts - direct	167.2	170.2
Grants and Contracts - indirect	55.9	54.1
Endowment Distribution	730.3	718.1
Other Investment Income	5.6	4.8
Current-Use Gifts	115.7	97.9
Transfers from University - Academic Programs	64.9	63.1
Other Income	51.9	49.0
Income Reclasses ⁽¹⁾	<u>(19.6)</u>	<u>(20.8)</u>
Total Revenues	1,481.7	1,433.4
Expenses		
Salaries and Wages	547.4	532.2
Employee Benefits	143.2	135.5
Fellowships and Awards	83.1	83.5
Supplies, Materials and Equipment	68.0	68.6
Operations and Maintenance of Plant	188.9	178.8
Principal and Interest on Internal Debt	32.6	38.0
Depreciation Expense	129.1	125.9
Transfers to University - University Assessment	45.8	45.6
Transfers to University - Academic Programs	19.6	20.8
Services Purchased	170.6	166.2
Other Expenses	69.9	70.8
Expense Reclasses ⁽¹⁾	<u>(19.6)</u>	<u>(20.8)</u>
Total Expenses	1,478.6	1,445.1
Net Operating Results	<u><u>\$ 3.1</u></u>	<u><u>\$ (11.7)</u></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, 2018

	note	Fiscal Year 2018			Fiscal Year 2017			
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	
Revenues								
Tuition and Fees		\$ 584.2	-	\$ 584.2	\$ 557.0	-	\$ 557.0	5%
Less: Financial Aid	(1)	(120.5)	(153.9)	(274.4)	(108.3)	(151.7)	(260.0)	5.5%
Net Tuition and Fees		463.7	(153.9)	309.8	448.7	(151.7)	297.0	4%
Grants and Contracts - direct	(2)	-	167.2	167.2	-	170.2	170.2	-2%
Grants and Contracts - indirect		55.9	-	55.9	54.1	-	54.1	3%
Endowment Distribution	(3)	264.8	465.5	730.3	239.5	478.6	718.1	2%
Other Investment Income	(4)	1.0	4.6	5.6	0.7	4.1	4.8	16%
Current-Use Gifts		38.3	77.4	115.7	32.9	65.0	97.9	18%
Transfers from University - Academic Programs	(5)	31.7	33.2	64.9	30.7	32.4	63.1	3%
Other Income	(6)	52.0	(0.1)	51.9	49.6	(0.6)	49.0	6%
Total Revenues (a)		907.4	593.9	1,501.3	856.2	598.0	1,454.2	3%
Expenses								
Salaries and Wages	(7)	315.5	231.9	547.4	290.9	241.3	532.2	3%
Employee Benefits		85.0	58.2	143.2	77.3	58.2	135.5	6%
Fellowships and Awards		24.1	59.0	83.1	24.8	58.7	83.5	-1%
Supplies, Materials and Equipment		31.3	36.7	68.0	29.5	39.1	68.6	-1%
Operations and Maintenance of Plant	(8)	145.3	43.6	188.9	134.3	44.5	178.8	5.7%
Principal and Interest on Internal Debt		91.8	0.1	91.9	93.9	0.1	94.0	-2%
Transfers to University - University Assessment	(9)	45.8	-	45.8	45.6	-	45.6	0.5%
Transfers to University - Academic Programs	(10)	19.6	-	19.6	20.8	-	20.8	-6%
Services Purchased		114.5	56.1	170.6	108.0	58.2	166.2	3%
Other Expenses	(11)	26.7	43.2	69.9	27.0	43.9	70.9	-1%
Total Expenses (b)		899.6	528.8	1,428.4	852.1	544.0	1,396.1	2%
Net Operating Results		7.8	65.1	72.9	4.1	54.0	58.1	25%
Investment in Plant and Equipment, net (c)	(12)	(19.9)	(20.2)	(40.1)	(19.7)	(14.6)	(34.3)	17%
Net Transfer (to)/from Endowment (d)	(13)	0.3	(4.5)	(4.2)	2.8	(2.5)	0.3	-14.86%
Other Changes in Net Assets (e)	(14)	34.6	1.6	36.2	28.0	7.9	35.9	1%
Net Change in Fiscal Year Activity (a-b+c+d+e)		\$ 22.8	\$ 42.0	\$ 64.8	\$ 15.2	\$ 44.8	\$ 60.0	8%

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(in millions)

Faculty of Arts and Sciences
Core
Statement of Activity
Fiscal Year Ending June 30, 2018

	Fiscal Year 2018			Fiscal Year 2017			
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total	
Revenues							
Tuition and Fees	\$ 459.9	-	\$ 459.9	\$ 441.6	-	441.6	
<i>Less: Financial Aid</i>	(107.4)	(146.2)	(253.6)	(98.1)	(143.0)	(241.1)	
Net Tuition and Fees	352.5	(146.2)	206.3	343.5	(143.0)	200.5	3%
Grants and Contracts - direct	-	131.7	131.7	-	133.0	133.0	-1%
Grants and Contracts - indirect	40.0	-	40.0	37.7	-	37.7	6%
Endowment Distribution	200.9	348.7	549.6	199.1	342.9	542.0	1%
Other Investment Income	0.3	3.2	3.5	0.2	2.9	3.1	13%
Current-Use Gifts	37.8	56.5	94.3	32.3	47.6	79.9	18%
Transfers from University - Academic Programs	16.2	29.5	45.7	14.0	28.9	42.9	6%
Other Income	1.0	-	1.0	2.2	0.7	2.9	-64%
Total Revenues (a)	648.7	423.4	1,072.1	629.0	413.0	1,042.0	3%
Expenses							
Salaries and Wages	223.6	172.9	396.5	215.7	172.1	387.8	2%
Employee Benefits	61.4	42.2	103.6	58.0	40.5	98.5	5%
Fellowships and Awards	22.8	53.6	76.4	23.3	53.8	77.1	-1%
Supplies, Materials and Equipment	18.6	16.1	34.7	17.5	17.0	34.5	1%
Operations and Maintenance of Plant	113.7	28.9	142.6	105.7	29.1	134.8	6%
Principal and Interest on Internal Debt	84.0	0.1	84.1	86.3	0.1	86.4	-3%
Transfers to University - University Assessment	34.8	-	34.8	34.8	-	34.8	0%
Transfers to University - Academic Programs	15.2	-	15.2	15.3	-	15.3	0%
Services Purchased	64.3	36.7	101.0	61.1	37.4	98.5	3%
Other Expenses	6.4	28.5	34.9	6.8	28.3	35.1	-1%
Total Expenses (b)	644.8	379.0	1,023.8	624.5	378.3	1,002.8	2%
Net Operating Results	3.9	44.4	48.3	4.5	34.7	39.2	23%
Investment in Plant and Equipment, net (c)	(13.9)	(9.8)	(23.7)	(14.0)	(10.9)	(24.9)	-5%
Net Transfer (to)/from Endowment (d)	0.3	0.6	0.9	2.8	0.1	2.9	-68%
Other Changes in Net Assets (e)	34.7	2.7	37.4	28.1	5.3	33.4	12%
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ 25.0	\$ 37.9	\$ 62.9	\$ 21.4	\$ 29.2	\$ 50.6	24%

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

	note	June 30	
		2018	2017
ASSETS:			
Deposits with the University.....	(15)	\$ 713.3	\$ 641.2
Receivables			
Student Receivables		5.3	5.3
Other Receivables		29.0	23.6
Prepayments and deferred charges.....		15.3	15.7
Notes Receivable	(16)	156.1	149.0
Pledges Receivable		657.1	768.4
Fixed assets, net of accumulated depreciation	(17)	2,171.4	2,041.8
Interests in perpetual trusts held by others		99.0	97.3
Long-term investments (primarily endowment).....	(18)	17,004.4	15,929.6
TOTAL ASSETS		20,850.9	19,671.9
LIABILITIES			
Accrued Expenses		18.7	28.8
Deferred Revenue and other liabilities		96.2	91.1
Internal Debt Obligations	(19)	1,181.0	1,027.1
TOTAL LIABILITIES		1,295.9	1,147.0
TOTAL NET ASSETS	(20)	19,555.0	18,524.9
TOTAL LIABILITIES AND NET ASSETS		\$ 20,850.9	\$ 19,671.9

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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 \$274.4 million in FY18. This is an increase of \$14.4 million or 5.5 percent above FY17. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded over \$2 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased over 140%, from \$80 million in 2005 to \$192.5 million in 2018. One in five undergraduate families are not required to contribute to the cost of their child's education, as they have annual incomes of less than \$65,000, and approximately 54 percent of undergraduate students receive financial aid. Harvard College financial aid awards consist of grants; students are never required to take out loans to cover the cost of their education, although they are expected to contribute through term-time work or summer earnings.

Financial aid presented in the table below excludes \$83.1 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY17 fellowships and awards were \$83.5 million.

<i>(in millions)</i>	<u>FY 2018</u>		<u>FY 2017</u>	
Undergraduate	\$	192.5	\$	180.1
Graduate		69.6		67.8
Continuing Education		12.3		12.1
Total Financial Aid	\$	<u>274.4</u>	\$	<u>260.0</u>

2. GRANTS AND CONTRACTS

FAS grants and contracts have decreased slightly by 0.5 percent in FY18 to \$223.1 million from \$224.3 million in FY17. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2018		
	Direct	Indirect	Total
Federally Sponsored Research			
National Institutes of Health (NIH)	\$ 33.8	\$ 17.2	\$ 51.0
National Science Foundation (NSF)	29.2	13.7	42.9
Department of Defense (DoD)	17.3	7.1	24.4
Other	19.7	10.9	30.6
Subtotal - Federally-Sponsored Research	100.0	48.9	148.9
Non-Federally Sponsored Research	46.5	7.0	53.5
Other Sponsored Awards	20.7	0.0	20.7
Total Sponsored	\$ 167.2	\$ 55.9	\$ 223.1

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 FY18 and FY17. 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 49 percent in FY18, up from 45.8 percent in FY17. 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 \$12.2 million or 1.7 percent, to \$730.3 million in FY18 from \$718.1 million in FY17. Endowment income represented 48.6 percent of the FAS's total revenues, consistent with the FY17 share of 49.4 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.

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Combining all of the FAS endowment distributions, the aggregate FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 5.1 percent in FY18, down from 5.3 percent in FY17.

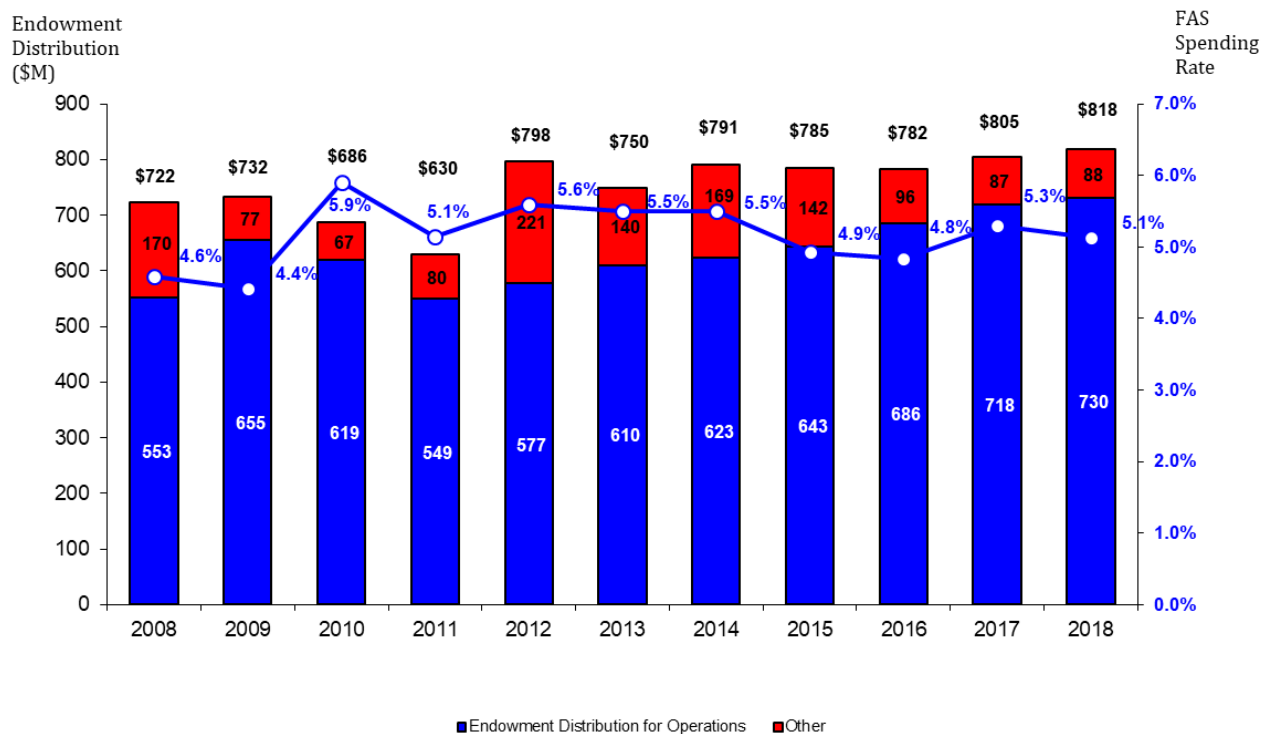
Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market		% of Market	
	FY 2018	Value	FY 2017	Value
Endowment distribution	\$ 730.3	4.6%	\$ 718.1	4.7%
Distribution for Central Administrative Operations	81.2	0.5%	79.7	0.5%
Endowment decapitalizations	6.9	0.0%	7.5	0.0%
Total payout from endowment	\$ 818.4	5.1%	\$ 805.3	5.3%

Beginning-of-year endowment market value ¹	\$ 15,942.3	\$ 15,263.5
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¹ Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY08.



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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 FY18 the income received was \$5.6 million, 16.7% higher than in FY17. Interest paid on fund balances increased to 0.36 percent in FY18, compared to 0.23 percent in FY17.

5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY18 the FAS received \$64.9 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, \$33.2 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 \$11.4 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$20.3 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 FY18 and FY17:

(in millions)

	<u>FY 2018</u>	<u>FY 2017</u>
Royalty income	\$ 9.7	\$ 5.2
Sales of services	10.6	9.6
Rental Income	7.9	8.0
Admissions application fees	6.1	5.6
Program and event income	4.0	5.6
Publication income	0.8	0.7
Miscellaneous income	<u>12.8</u>	<u>14.3</u>
Other Income	\$ 51.9	\$ 49.0

Miscellaneous income includes library fees, other fines and fees, interest on mortgages and commissions. Royalty income increased by \$4.5 million in FY18 driven by research by Chemistry faculty.

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7. SALARIES, WAGES AND BENEFITS

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY18 these costs represented 48.3 percent of total FAS expenses, compared to 47.9 percent in the prior year. At \$690.6 million, this expense was 3.4 percent higher than FY17 spending of \$667.7 million.

The year-over-year increase for salaries and wages was 2.9 percent. This increase was mainly linked to the annual merit increases for FAS faculty, exempt and union employees averaging 1.8 percent, as well as the Massachusetts minimum wage increase that impacted temporary employees. The benefits component of the total increased by 5.7 percent from the prior year due to University rate increases for Faculty and Exempt Staff.

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

FAS operations and maintenance expense increased by \$10.1 million or 5.7 percent, from \$178.8 million in FY17 to \$188.9 million in FY18. At the end of FY18 the FAS campus included 276 owned buildings comprising approximately 10.1 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$54.4 million); custodial, security and grounds keeping services (\$60.9 million); repairs and maintenance (\$57.2 million); and rental and other fees, net of recoveries (\$16.4 million). Besides normal inflationary increases, other increases were focused in three areas: (1) House Renewal (2) and acquisition of additional space for the Division of Continuing Education (DCE) for its expanded programs.

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 FY18 the University Assessment increased by 0.4 percent over FY17, from \$45.6 million to \$45.8 million.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY18 the FAS transferred \$19.6 million to the University for Academic Program Support. Of this total, \$12.3 million was transferred for the Academic Initiatives Fund, which began in FY00 and provides support for University initiatives at the discretion of the President and Provost. This contribution is made annually by each Harvard Faculty and is based on each Faculty's endowment market value as well as its two-year trailing salary and wage expense (exclusive of student salaries and salaries bearing overhead).

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Another \$6.3 million was transferred in FY18 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 \$1.0 million to the SIS (Student Information System) initiative in FY18.

In FY17 the FAS transferred \$11.9 million to the Academic Initiatives Fund, made a \$7.6 million contribution to HUSEC, as well as a \$1.25 million contribution to SIS (Student Information System) initiative, for a total of \$20.8 million.

11. OTHER EXPENSES

Other expenses decreased by 1.4 percent from \$70.9 million in FY17 to \$69.9 million in FY18. Major cost components in this category include: travel and events costs (\$31.7 million), other institutional activity (\$10.0 million), telephones and photocopying costs (\$8.9M). The balance (\$19.2 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 \$263.5 million in FY18. Capital expenditures for equipment comprised \$32.1 million of this total. The balance of \$231.4 million was invested in improvements to plant, the largest of which included: \$123.2 million of spending on the House Renewal Program, \$25 million for Athletics related projects, and investment in programmatic renovations and maintenance and capital renewal projects was \$83.2 million.

Funding for capital spending in FY18 and FY17 came from the following sources:

(in millions)

	FY18	FY17
Total Capital Spending	(\$263.5)	(\$317.0)
Less: Debt Proceeds	\$180.5	\$178.9
Less: Construction Gifts	\$29.2	\$51.2
Less: Funds Designated for Construction/ Other	\$13.7	\$52.6
Total	\$ (40.1)	\$ (34.3)

FAS spent \$40.1 million of operating funds for capital projects and equipment - \$28.3 million on equipment and \$11.8 million on capital projects. Of the \$11.8 million, \$9 million came from restricted endowments and gifts held by departments and the rest from reserves.

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13. NET TRANSFER (TO) / FROM ENDOWMENT

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

In FY18 the FAS returned \$4.1 million to the endowment, representing endowment capitalizations net of decapitalizations. The equivalent figure in FY17 was \$0.2 million. The change is driven by FY18 recapitalizations of distributions net of expenses in Dumbarton Oaks.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets in FY18 totaled \$7.2 million. This amount included \$8.0 million of distributions from split interest agreements and other changes of \$0.8 million.

In FY17 other changes in net assets of \$3.6 million which included a \$7.3 million paydown of debt related to renovations, most notably Lowell House that was not repeated in FY18.

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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, 2018, deposits were \$713.3 million, up \$72.1 million from \$641.2 million in the prior year. This increase was primarily driven by debt funded construction.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2018 and 2017 were as follows:

<i>(in millions)</i>	<u>FY 2018</u>	<u>FY 2017</u>
Student Notes Receivable:		
University Loan Program	\$ 33.7	\$ 33.6
Faculty and Staff	<u>122.4</u>	<u>115.4</u>
Total Notes Receivable	\$ 156.1	\$ 149.0

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.

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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 FY18 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, 2018 and 2017:

<i>(in millions)</i>	<u>FY 2018</u>		<u>FY 2017</u>	
Research facilities	\$	1,265.9	\$	1,228.0
Classrooms and offices		491.3		487.4
Housing facilities		902.4		668.8
Libraries		215.1		212.2
Museums and assembly facilities		169.7		168.8
Athletic facilities		181.1		150.5
Service facilities		37.4		29.9
Capital leasehold improvements		165.2		164.0
Land		5.6		5.6
Construction in Progress		224.8		320.8
Equipment		411.6		405.7
Total fixed assets at cost		<u>4,070.1</u>		<u>3,841.7</u>
Less: accumulated depreciation		<u>(1,898.7)</u>		<u>(1,799.9)</u>
Total fixed assets, net	\$	<u>2,171.4</u>	\$	<u>2,041.8</u>

In FY18 the largest increase in the FAS Physical Plant was in housing facilities, resulting from the ongoing House Renewal project.

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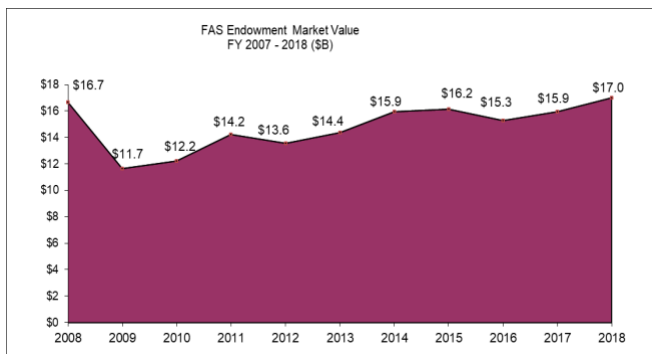
18. LONG-TERM INVESTMENTS (PRIMARYLY ENDOWMENT)

The FAS's investments, primarily endowment, totaled \$17.0 billion at FY18 year end. The market value of these investments increased by \$1.1 billion, or 6.7 percent, from June 30, 2017. This change was primarily driven by the combination of market returns of 10.0 percent and the funding of the annual FY18 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, 2018 and 2017:

<i>(in millions)</i>	FY 2018		FY 2017	
Endowment investments	\$	16,978.8	\$	15,904.1
Gift fund investments		1.6		1.5
General Operating Account investments		24.0		24.0
Total Long term investments	\$	17,004.4	\$	15,929.6

The chart below summarizes the FAS endowment market value over the past ten years from FY08 through FY18:



(1) The 6/30/18 FAS endowment market value of \$17.0 billion includes endowment investments of \$16.9 billion and \$21 million 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 6/30/18 is \$17.5 billion.

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19. INTERNAL DEBT OBLIGATIONS

At the end of FY18 the FAS's outstanding debt was \$1,181.0 million, \$153.9 million (15.0 percent) more than in FY17.

<i>(in millions)</i>	<u>FY 2018</u>	<u>FY 2017</u>
Long-Term Debt	\$ 1,061.0	\$ 911.7
Faculty Loans	120.0	115.4
Total Debt and Notes Payable	\$ 1,181.0	\$ 1,027.1

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. In FY18 the FAS long-term debt portfolio increased by \$149.3 million. \$117.5 million of this increase related to the House Renewal project. Additionally, \$29.0 million of this increase was related to the decision to restructure FAS's internal debt schedule with the University ("Blend and Extend").

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 FY18 Statement of Activity and Cash Flow includes a detailed crosswalk between the FAS's managerial view and the Modified GAAP University view. We also present a cash flow analysis which includes operating results as defined in the Modified GAAP view, investments in capital (investing activities), and the impact of other financing activities.

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(in millions)

Faculty of Arts and Sciences
Consolidated
Statement of Activity and Cash Flow
Fiscal Year Ending June 30, 2018

	Fiscal Year 2018		
	Total - All Funds	Adjustments ⁽¹⁾	Modified GAAP
Revenues			
Tuition and Fees	\$ 584.2		\$ 584.2
<i>Less: Financial Aid</i>	<i>(274.4)</i>		<i>(274.4)</i>
Net Tuition and Fees	309.8	-	309.8
Grants and Contracts - direct	167.2		167.2
Grants and Contracts - indirect	55.9		55.9
Endowment Distribution	730.3		730.3
Other Investment Income	5.6		5.6
Current-Use Gifts	115.7		115.7
Transfers from University - Academic Programs	64.9		64.9
Other Income	51.9		51.9
Income Reclasses		<i>(19.6)</i>	<i>(19.6)</i>
Total Revenues	1,501.3	<i>(19.6)</i>	1,481.7
Expenses			
Salaries and Wages	547.4		547.4
Employee Benefits	143.2		143.2
Fellowships and Awards	83.1		83.1
Supplies, Materials and Equipment	68.0		68.0
Operations and Maintenance of Plant	188.9		188.9
Principal and Interest on Internal Debt	91.9	<i>(59.3)</i>	32.6
Depreciation Expense		129.1	129.1
Transfers to University - University Assessment	45.8		45.8
Transfers to University - Academic Programs	19.6		19.6
Services Purchased	170.6		170.6
Other Expenses	69.9		69.9
Expense Reclasses		<i>(19.6)</i>	<i>(19.6)</i>
Total Expenses	1,428.4	50.2	1,478.6
Net Operating Results	72.9	<i>(69.8)</i>	<u>\$ 3.1</u>
Depreciation		129.1	129.1
Cash Flow Provided by (Used in) Operating Activities		59.3	132.2
Investment in Plant and Equipment, net	(40.1)	40.1	-
Capital Acquisitions and Expenditures		<i>(262.2)</i>	<i>(262.2)</i>
Cash Flow Provided By (Used in) Investing Activities		<i>(222.1)</i>	<i>(262.2)</i>
Principal Payments (internal loans)			<i>(59.3)</i>
Financing Activities			
Net Transfer (to)/from Endowment	(4.2)		(4.2)
New Debt (internal loans)		180.8	180.8
Principal Pre-payments (internal loans)		(0.7)	(0.7)
Construction Gifts Applied		43.3	43.3
Split Interest Agreements and Other Changes in Net Assets	36.2	<i>(1.3)</i>	34.9
Cash Flow Provided By (Used in) Financing Activities		222.1	254.1
Net Change in Fiscal Year Activity	\$ 64.8	\$ 0.0	\$ 64.8

(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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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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