

# APPENDIX

## FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2019

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, 2019**

	<u>Fiscal Year 2019</u>	<u>Fiscal Year 2018</u>
<b>Revenues</b>		
Tuition and Fees	\$ 614.3	\$ 584.2
<i>Less: Financial Aid</i>	<u>(287.7)</u>	<u>(274.4)</u>
Net Tuition and Fees	326.6	309.8
Grants and Contracts - direct	178.2	167.2
Grants and Contracts - indirect	56.1	55.9
Endowment Distribution	764.0	730.3
Other Investment Income	11.8	5.6
Current-Use Gifts	99.4	115.7
Transfers from University - Academic Programs	65.4	64.9
Other Income	70.4	51.9
Income Reclasses <sup>(1)</sup>	<u>(18.3)</u>	<u>(19.6)</u>
Total Revenues	1,553.6	1,481.7
<b>Expenses</b>		
Salaries and Wages	575.1	547.4
Employee Benefits	148.5	143.2
Fellowships and Awards	85.2	83.1
Supplies, Materials and Equipment	72.4	68.0
Operations and Maintenance of Plant	190.7	188.9
Principal and Interest on Internal Debt	37.6	32.6
Depreciation Expense	132.7	129.1
Transfers to University - University Assessment	46.6	45.8
Transfers to University - Academic Programs	18.3	19.6
Services Purchased	178.4	170.6
Other Expenses	72.8	69.9
Expense Reclasses <sup>(1)</sup>	<u>(18.3)</u>	<u>(19.6)</u>
Total Expenses	1,540.0	1,478.6
<b>Net Operating Results</b>	<u><u>\$ 13.6</u></u>	<u><u>\$ 3.1</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, 2019**

	note	Fiscal Year 2019			Fiscal Year 2018		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>							
Tuition and Fees		\$ 614.3	\$ -	\$ 614.3	\$ 584.2	\$ -	\$ 584.2
Less: Financial Aid	(1)	(124.6)	(163.1)	(287.7)	(120.5)	(153.9)	(274.4)
Net Tuition and Fees		489.7	(163.1)	326.6	463.7	(153.9)	309.8
Grants and Contracts - direct	(2)	-	178.2	178.2	-	167.2	167.2
Grants and Contracts - indirect	(2)	56.1	--	56.1	55.9	-	55.9
Endowment Distribution	(3)	280.3	483.7	764.0	264.8	465.5	730.3
Other Investment Income	(4)	2.6	9.2	11.8	1.0	4.6	5.6
Current-Use Gifts		31.1	68.3	99.4	38.3	77.4	115.7
Transfers from University - Academic Programs	(5)	29.3	36.1	65.4	31.7	33.2	64.9
Other Income	(6)	70.4	0.0	70.4	52.0	(0.1)	51.9
Total Revenues (a)		959.5	612.4	1,571.9	907.4	593.9	1,501.3
<b>Expenses</b>							
Salaries and Wages	(7)	331.2	243.9	575.1	315.5	231.9	547.4
Employee Benefits		88.6	59.9	148.5	85.0	58.2	143.2
Fellowships and Awards		26.3	58.9	85.2	24.1	59.0	83.1
Supplies, Materials and Equipment		32.6	39.8	72.4	31.3	36.7	68.0
Operations and Maintenance of Plant	(8)	146.9	43.8	190.7	145.3	43.6	188.9
Principal and Interest on Internal Debt		104.6	0.1	104.7	91.8	0.1	91.9
Transfers to University - University Assessment	(9)	46.6	-	46.6	45.8	-	45.8
Transfers to University - Academic Programs	(10)	18.3	-	18.3	19.6	-	19.6
Services Purchased		120.1	58.3	178.4	114.5	56.1	170.6
Other Expenses	(11)	27.9	44.9	72.8	26.7	43.2	69.9
Total Expenses (b)		943.1	549.6	1,492.7	899.6	528.8	1,428.4
<b>Net Operating Results</b>		16.4	62.8	79.2	7.8	65.1	72.9
<b>Investment in Plant and Equipment, net (c)</b>	(12)	(15.9)	(15.4)	(31.3)	(19.9)	(20.2)	(40.1)
<b>Net Transfer (to)/from Endowment (d)</b>	(13)	0.2	(2.6)	(2.4)	0.3	(4.5)	(4.2)
<b>Other Changes in Net Assets (e)</b>	(14)	19.8	0.4	20.2	34.6	1.6	36.2
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>		\$ 20.5	\$ 45.2	\$ 65.7	\$ 22.8	\$ 42.0	\$ 64.8

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(in millions)

**Faculty of Arts and Sciences**  
**Core**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2019**

	Fiscal Year 2019			Fiscal Year 2018		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>						
Tuition and Fees	\$ 475.8	\$ -	\$ 475.8	\$ 459.9	\$ -	459.9
<i>Less: Financial Aid</i>	(110.6)	(153.9)	(264.5)	(107.4)	(146.2)	(253.6)
Net Tuition and Fees	365.2	(153.9)	211.3	352.5	(146.2)	206.3
Grants and Contracts - direct	-	142.2	142.2	-	131.7	131.7
Grants and Contracts - indirect	40.0	-	40.0	40.0	-	40.0
Endowment Distribution	211.3	362.4	573.7	200.9	348.7	549.6
Other Investment Income	1.4	6.9	8.3	0.3	3.2	3.5
Current-Use Gifts	29.8	53.0	82.8	37.8	56.5	94.3
Transfers from University - Academic Programs	15.3	32.7	48.0	16.2	29.5	45.7
Other Income	16.3	(0.9)	15.4	1.0	-	1.0
Total Revenues (a)	679.3	442.4	1,121.7	648.7	423.4	1,072.1
<b>Expenses</b>						
Salaries and Wages	232.1	184.0	416.1	223.6	172.9	396.5
Employee Benefits	63.4	44.2	107.6	61.4	42.2	103.6
Fellowships and Awards	25.0	53.6	78.6	22.8	53.6	76.4
Supplies, Materials and Equipment	19.3	16.4	35.7	18.6	16.1	34.7
Operations and Maintenance of Plant	112.7	29.2	141.9	113.7	28.9	142.6
Principal and Interest on Internal Debt	97.0	0.1	97.1	84.0	0.1	84.1
Transfers to University - University Assessment	35.3	-	35.3	34.8	-	34.8
Transfers to University - Academic Programs	14.1	-	14.1	15.2	-	15.2
Services Purchased	68.0	38.3	106.3	64.3	36.7	101.0
Other Expenses	8.6	29.5	38.1	6.4	28.5	34.9
Total Expenses (b)	675.5	395.3	1,070.8	644.8	379.0	1,023.8
<b>Net Operating Results</b>	<b>3.8</b>	<b>47.1</b>	<b>50.9</b>	<b>3.9</b>	<b>44.4</b>	<b>48.3</b>
<b>Investment in Plant and Equipment, net (c)</b>	<b>(9.8)</b>	<b>(11.5)</b>	<b>(21.3)</b>	<b>(13.9)</b>	<b>(9.8)</b>	<b>(23.7)</b>
<b>Net Transfer (to)/from Endowment (d)</b>	<b>0.2</b>	<b>(1.6)</b>	<b>(1.4)</b>	<b>0.3</b>	<b>0.6</b>	<b>0.9</b>
<b>Other Changes in Net Assets (e)</b>	<b>21.9</b>	<b>-</b>	<b>21.9</b>	<b>34.7</b>	<b>2.7</b>	<b>37.4</b>
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>	<b>\$ 16.1</b>	<b>\$ 34.0</b>	<b>\$ 50.1</b>	<b>\$ 25.0</b>	<b>\$ 37.9</b>	<b>\$ 62.9</b>

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

(in millions)

	note	June 30	
		2019	2018
<b>ASSETS:</b>			
Deposits with the University.....	(15)	\$ 814.4	\$ 713.3
Receivables			
Student Receivables .....		4.8	5.3
Other Receivables .....		32.5	29.0
Prepayments and deferred charges.....		16.2	15.3
Notes Receivable .....	(16)	156.3	156.1
Pledges Receivable .....		736.9	657.1
Fixed assets, net of accumulated depreciation .....	(17)	2,238.2	2,171.4
Interests in perpetual trusts held by others .....		101.5	99.0
Long-term investments (primarily endowment).....	(18)	17,532.6	17,004.4
<b>TOTAL ASSETS</b>		<b>21,633.4</b>	<b>20,850.9</b>
<b>LIABILITIES</b>			
Accrued Expenses .....		14.0	18.7
Deferred Revenue and other liabilities .....		90.3	96.2
Internal Debt Obligations .....	(19)	1,295.7	1,181.0
<b>TOTAL LIABILITIES</b>		<b>1,400.0</b>	<b>1,295.9</b>
<b>TOTAL NET ASSETS</b>	(20)	<b>20,233.4</b>	<b>19,555.0</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 21,633.4</b>	<b>\$ 20,850.9</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 \$287.7 million in FY19. This is an increase of \$13.3 million or 4.8 percent above FY18. Since launching the Harvard Financial Aid Initiative in 2004, Harvard College has awarded over \$2 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased almost 150 percent, from \$73 million in 2004 to \$200.9 million in 2019. 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 \$85.2 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY18 fellowships and awards were \$83.1 million.

<i>(in millions)</i>	<u>FY 2019</u>	<u>FY 2018</u>
Undergraduate	\$ 200.9	\$ 192.5
Graduate	73.4	69.6
Continuing Education	<u>13.4</u>	<u>12.3</u>
Total Financial Aid	<u>\$ 287.7</u>	<u>\$ 274.4</u>

### 2. GRANTS AND CONTRACTS

FAS grants and contracts have increased by 5 percent in FY19 to \$234.3 million from \$223.1 million in FY18. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2019		
	Direct	Indirect	Total
Federally Sponsored Research			
National Institutes of Health (NIH)	\$ 37.3	\$ 18.8	\$ 56.1
National Science Foundation (NSF)	28.4	12.6	41.0
Department of Defense (DoD)	18.6	8.3	26.9
Other	15.6	8.6	24.2
Subtotal - Federally-Sponsored Research	99.9	48.3	148.2
Non-Federally Sponsored Research	57.1	7.8	64.9
Other Sponsored Awards	21.2	-	21.2
<b>Total Sponsored</b>	<b>\$ 178.2</b>	<b>\$ 56.1</b>	<b>\$ 234.3</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 FY19 and FY18. 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 48.4 percent in FY19, slightly down from 49 percent in FY18. 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 \$33.7 million or 4.6 percent, to \$764.0 million in FY19 from \$730.3 million in FY18. The increase above the budgeted increase is related to the impact of the campaign. Endowment income represented 48.6 percent of the FAS's total revenues, consistent with FY18.

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 both FY19 and FY18.

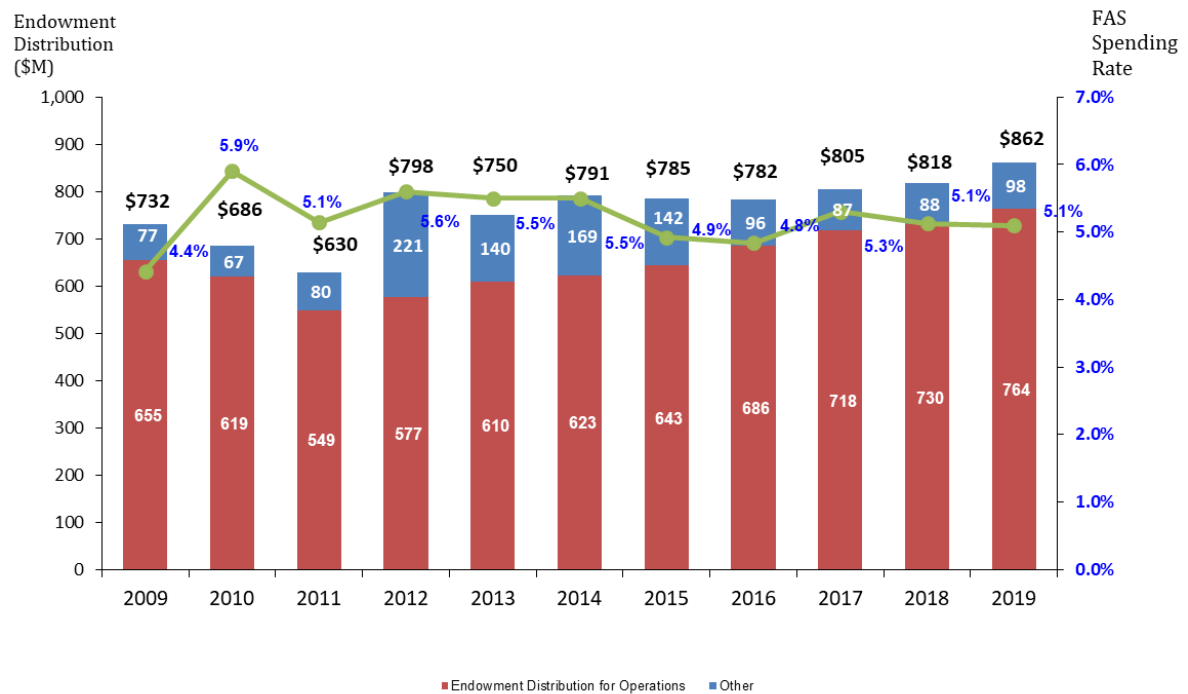
Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market		% of Market	
	FY 2019	Value	FY 2018	Value
Endowment distribution	\$ 764.0	4.5%	\$ 730.3	4.6%
Distribution for Central Administrative Operations	84.9	0.5%	81.2	0.5%
Federal NII Tax - GIA <sup>1</sup>	9.8	0.1%	-	-
Endowment decapitalizations	3.5	0.0%	6.9	0.0%
<b>Total payout from endowment</b>	<b>\$ 862.2</b>	<b>5.1%</b>	<b>\$ 818.4</b>	<b>5.1%</b>
Beginning-of-year endowment market value <sup>2</sup>	\$ 17,000.1		\$ 15,942.3	

<sup>1</sup> 1.4 percent excise tax on the net investment income of private colleges and universities

<sup>2</sup> Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY09.



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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 FY19 the income received was \$11.8 million, more than double FY18 of \$5.6 million. The high increase is due to a significant increase in interest paid on fund balances, the rate has increased to 1.25 percent in FY19, compared to 0.36 percent in FY18.

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

In FY19 the FAS received \$65.4 million in income transfers from the Offices of the President and Provost and other University resources. Of this total, \$31.9 million was related to gifts and endowments held by the University but designated for the FAS in support of professorships, financial aid and academic programs. Another \$11.6 million of University support was directed to the Harvard College Library, which benefits the FAS and the University; and \$21.9 million of net income transfers to and from FAS supported undergraduate and graduate aid, faculty research and University-wide initiatives that are housed within the FAS.

#### 6. OTHER INCOME

FAS Other Income included the following in FY19 and FY18:

*(in millions)*

	<u>FY 2019</u>		<u>FY 2018</u>
Royalty income	\$ 24.4	\$	9.7
Sales of services	11.8		10.6
Rental Income	8.3		7.9
Admissions application fees	5.8		6.1
Program and event income	5.6		4.0
Publication income	0.7		0.8
Miscellaneous income	13.8		12.8
<b>Other Income</b>	<b>\$ 70.4</b>	<b>\$</b>	<b>51.9</b>

Royalty income increased by \$14.7 million in FY19 driven by a milestone and license fee payment from Astellas Institute for Regenerative Medicine. 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 FY19 these costs represented 48.5 percent of total FAS expenses, compared to 48.3 percent in the prior year. At \$723.6 million, this expense was 4.8 percent higher than FY18 spending of \$690.6 million.

The year-over-year increase for salaries and wages was 5.1 percent. This increase was mainly linked to the annual merit increases for FAS faculty, exempt and union employees averaging 3.0 percent, as well as an increase in Faculty FTE's. The benefits component of the total increased 3.7 percent from the prior year.

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

FAS operations and maintenance expense increased by \$1.8 million or 1.0 percent, from \$188.9 million in FY18 to \$190.7 million in FY19. At the end of FY19 the FAS campus included 265 owned buildings comprising approximately 10.0 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$55.5 million); custodial, security and grounds keeping services (\$64.3 million); repairs and maintenance (\$51.7 million); and rental and other fees, net of recoveries (\$19.2 million). Besides normal inflationary increases, other increases were focused in two 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 FY19 the University Assessment increased by 1.7 percent over FY18, from \$45.8 million to \$46.6 million.

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

In FY19 the FAS transferred \$18.3 million to the University for Academic Program Support. Of this total, \$12.7 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 \$5.6 million was transferred in FY19 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

In FY18 the FAS transferred \$12.3 million to the Academic Initiatives Fund, made a \$6.3 million contribution to HUSEC, as well as a \$1.0 million contribution to the SIS (Student Information System) initiative, for a total of \$19.6 million.

## 11. OTHER EXPENSES

Other expenses increased by 4.1 percent from \$69.9 million in FY18 to \$72.8 million in FY19. Major cost components in this category include: travel and events costs (\$33 million), other institutional activity (\$10.1 million), telephones and photocopying costs (\$8.8 million). The balance (\$20.9 million) was made up of several 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 \$228.0 million in FY19. Capital expenditures for equipment comprised \$32.8 million of this total. The balance of \$195.2 million was invested in improvements to plant, the largest of which included: \$92.3 million of spending on the House Renewal Program, \$16.9 million for Athletics related projects, and investment in programmatic renovations and maintenance as well as capital renewal projects of \$86 million.

Funding for capital spending in FY19 and FY18 came from the following sources:

( in millions)

	<b>FY19</b>	<b>FY18</b>
Total Capital Spending	\$ (228.0)	\$ (263.5)
Less: Debt Proceeds	\$163.0	\$180.5
Less: Construction Gifts	\$23.9	\$29.2
Less: Funds Designated for Construction/ Other	\$9.8	\$13.7
<b>Total</b>	<b>\$ (31.3)</b>	<b>\$ (40.1)</b>

FAS spent \$31.3 million of operating funds for capital projects and equipment - \$27.3 million and \$4.0 million, respectively. Of the \$4.0 million, \$3.8 million came from Division of Continuing Education reserves.

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

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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 FY19 the FAS returned \$2.4 million to the endowment, representing endowment capitalizations net of decapitalizations. The equivalent figure in FY18 was \$4.2 million. The change is driven by reduction in both recapitalizations of distributions net of expenses in Dumbarton Oaks of \$5.8M and in decapitalizations in FAS Core and Athletics of (\$3.2M).

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

Other changes in net assets in FY19 totaled \$20.2 million. This includes \$30.1 million related to restructuring the FAS's internal debt schedule with the University. Additionally, there were \$5.1 million of distributions from split interest agreements offset by debt paydown related to asset impairments of \$13.9 million. The debt paydown includes \$8.3 million related to the updating of research space and \$2.2 million related to House Renewal.

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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, 2019, deposits were \$814.4 million, up \$101.1 million from \$713.3 million in the prior year. This increase was primarily driven by debt funded construction.

### 16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2019 and 2018 were as follows:

<i>(in millions)</i>	<u>FY 2019</u>	<u>FY 2018</u>
Student Notes Receivable:		
University Loan Program	\$ 34.2	\$ 33.7
Faculty and Staff	<u>122.1</u>	<u>122.4</u>
<b>Total Notes Receivable</b>	<b>\$ 156.3</b>	<b>\$ 156.1</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.

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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 calculated using the straight-line method computed over the useful life of the asset. In addition to FY19 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, 2019 and 2018:

<i>(in millions)</i>	<u>FY 2019</u>		<u>FY 2018</u>	
Research facilities	\$	1,288.6	\$	1,265.9
Classrooms and offices		516.8		491.3
Housing facilities		1,116.4		902.4
Libraries		235.9		215.1
Museums and assembly facilities		169.4		169.7
Athletic facilities		193.8		181.1
Service facilities		37.8		37.4
Capital leasehold improvements		93.9		165.2
Land		5.6		5.6
Construction in Progress		102.7		224.8
Equipment		383.0		411.6
Total fixed assets at cost		<u>4,143.9</u>		<u>4,070.1</u>
Less: accumulated depreciation		<u>(1,905.7)</u>		<u>(1,898.7)</u>
<b>Total fixed assets, net</b>	<b>\$</b>	<b><u>2,238.2</u></b>	<b>\$</b>	<b><u>2,171.4</u></b>

In FY19 the largest increase in the FAS Physical Plant was in housing facilities, resulting from the ongoing House Renewal project.

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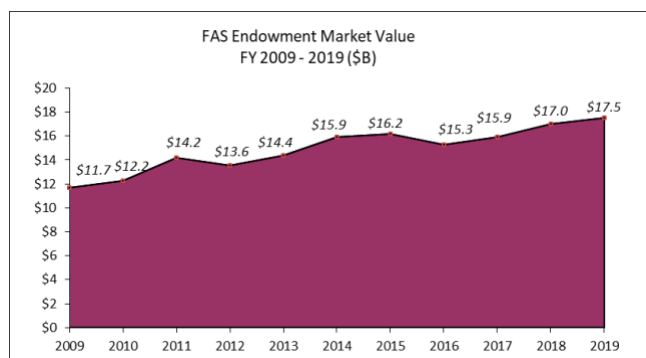
## 18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily endowment, totaled \$17.5 billion at FY19 year end. The market value of these investments increased by \$0.5 billion, or 3.1 percent, from June 30, 2018. This change was primarily driven by the combination of market returns of 6.5 percent and the funding of the annual FY19 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, 2019 and 2018:

<i>(in millions)</i>	<b>FY 2019</b>	<b>FY 2018</b>
Endowment investments	\$ 17,505.7	\$ 16,978.8
Gift fund investments	2.8	1.6
General Operating Account investments	24.0	24.0
<b>Total Long term investments</b>	<b>\$ 17,532.6</b>	<b>\$ 17,004.4</b>

The charts below summarize the FAS endowment market value over the past ten years from FY09 through FY19:



(1) The 6/30/19 FAS endowment market value of \$17.5 billion includes endowment investments of \$17.5 billion and \$16.7 million undistributed investment earnings, exclusive of endowment pledges and interests in trusts held by others. In aggregate, the FAS endowment market value on 6/30/19 is \$18.0 billion.

## 19. INTERNAL DEBT OBLIGATIONS

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.

At the end of FY19 the FAS's outstanding debt was \$1,295.7 million, \$114.7 million (9.7 percent) more than in FY18.

<i>(in millions)</i>	<u>FY 2019</u>	<u>FY 2018</u>
Long-Term Debt	\$ 1,173.6	\$ 1,061.0
Faculty Loans	122.1	120.0
<b>Total Debt and Notes Payable</b>	<b><u>\$ 1,295.7</u></b>	<b><u>\$ 1,181.0</u></b>

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. In FY19 the FAS long-term debt portfolio increased by \$112.6 million. \$ 81.3 million of this increase related to the House Renewal project. Additionally, \$30.1 million of this increase was related to the decision to restructure FAS's internal debt schedule with the University.

## **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 FY19 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, 2019**

	Fiscal Year 2019		
	Total - All Funds	Adjustments <sup>(1)</sup>	Modified GAAP
<b>Revenues</b>			
Tuition and Fees	\$ 614.3	\$ -	\$ 614.3
<i>Less: Financial Aid</i>	<i>(287.7)</i>		<i>(287.7)</i>
Net Tuition and Fees	326.6	-	326.6
Grants and Contracts - direct	178.2		178.2
Grants and Contracts - indirect	56.1		56.1
Endowment Distribution	764.0		764.0
Other Investment Income	11.8		11.8
Current-Use Gifts	99.4		99.4
Transfers from University - Academic Programs	65.4		65.4
Other Income	70.4		70.4
Income Reclasses		<u>(18.3)</u>	<u>(18.3)</u>
Total Revenues	1,571.9	(18.3)	1,553.6
<b>Expenses</b>			
Salaries and Wages	575.1		575.1
Employee Benefits	148.5		148.5
Fellowships and Awards	85.2		85.2
Supplies, Materials and Equipment	72.4		72.4
Operations and Maintenance of Plant	190.7		190.7
Principal and Interest on Internal Debt	104.7	(67.1)	37.6
Depreciation Expense		132.7	132.7
Transfers to University - University Assessment	46.6		46.6
Transfers to University - Academic Programs	18.3		18.3
Services Purchased	178.4		178.4
Other Expenses	72.8		72.8
Expense Reclasses		<u>(18.3)</u>	<u>(18.3)</u>
Total Expenses	1,492.7	47.3	1,540.0
<b>Net Operating Results</b>	<u>79.2</u>	<u>(65.6)</u>	<u>\$ 13.6</u>
Depreciation		<u>132.7</u>	<u>132.7</u>
<b>Cash Flow Provided by (Used in) Operating Activities</b>		<b>67.1</b>	<b>146.3</b>
<b>Investment in Plant and Equipment, net</b>	(31.3)	31.3	-
Capital Acquisitions and Expenditures		<u>(226.7)</u>	<u>(226.7)</u>
<b>Cash Flow Provided By (Used in) Investing Activities</b>		<b>(195.4)</b>	<b>(226.7)</b>
<b>Principal Payments (internal loans)</b>			<b>(67.1)</b>
<b>Financing Activities</b>			
Net Transfer (to)/from Endowment	(2.4)		(2.4)
New Debt (internal loans)		164.6	164.6
Principal Pre-payments (internal loans)		(13.9)	(13.9)
Construction Gifts Applied		46.0	46.0
Split Interest Agreements and Other Changes in Net Assets	20.2	<u>(1.3)</u>	<u>18.9</u>
<b>Cash Flow Provided By (Used in) Financing Activities</b>		<b>195.4</b>	<b>213.2</b>
<b>Net Change in Fiscal Year Activity</b>	<u>\$ 65.7</u>	<u>\$ -</u>	<u>\$ 65.7</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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## **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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