

APPENDIX

FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2020

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, 2020

	<u>Fiscal Year 2020</u>	<u>Fiscal Year 2019</u>
Revenues		
Tuition and Fees	\$598.9	\$614.3
<i>Less: Financial Aid</i>	(298.9)	(287.7)
Net Tuition and Fees	300.0	326.6
Grants and Contracts - direct	179.3	178.2
Grants and Contracts - indirect	57.3	56.1
Endowment Distribution	803.6	764.0
Other Investment Income	19.7	11.8
Current-Use Gifts	108.3	99.4
Transfers from University - Academic Programs	68.7	65.4
Other Income	46.0	70.4
Income Reclasses ⁽ⁱ⁾	(26.9)	(18.3)
Total Revenues	<u>1,556.0</u>	<u>1,553.6</u>
Expenses		
Salaries and Wages	604.0	575.1
Employee Benefits	169.6	148.5
Fellowships and Awards	82.6	85.2
Supplies, Materials and Equipment	62.5	72.4
Operations and Maintenance of Plant	182.0	190.7
Principal and Interest on Internal Debt	45.9	37.6
Depreciation Expense	139.1	132.7
Transfers to University - University Assessment	47.3	46.6
Transfers to University - Academic Programs	26.9	18.3
Services Purchased	176.5	178.4
Other Expenses	62.3	72.8
Expense Reclasses ⁽ⁱ⁾	(26.9)	(18.3)
Total Expenses	<u>1,571.8</u>	<u>1,540.0</u>
Net Operating Results	<u>(\$15.8)</u>	<u>\$13.6</u>

(i) 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, 2020

	Fiscal Year 2020			Fiscal Year 2019		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 598.9	\$ -	\$ 598.9	\$ 614.3	\$ -	\$ 614.3
<i>Less: Financial Aid</i>	(125.0)	(173.9)	(298.9)	(124.6)	(163.1)	(287.7)
Net Tuition and Fees	473.9	(173.9)	300.0	489.7	(163.1)	326.6
Grants and Contracts - direct	-	179.3	179.3	-	178.2	178.2
Grants and Contracts - indirect	57.3	-	57.3	56.1	-	56.1
Endowment Distribution	298.2	505.4	803.6	280.3	483.7	764.0
Other Investment Income	5.5	14.2	19.7	2.6	9.2	11.8
Current-Use Gifts	39.9	68.4	108.3	31.1	68.3	99.4
Transfers from University - Academic Programs	33.0	35.7	68.7	29.3	36.1	65.4
Other Income	46.2	(0.2)	46.0	70.4	(0.0)	70.4
Total Revenues (a)	954.0	628.9	1,582.9	959.5	612.4	1,571.9
Expenses						
Salaries and Wages	344.7	259.3	604.0	331.2	243.9	575.1
Employee Benefits	106.1	63.5	169.6	88.6	59.9	148.5
Fellowships and Awards	27.6	55.0	82.6	26.3	58.9	85.2
Supplies, Materials and Equipment	27.1	35.4	62.5	32.6	39.8	72.4
Operations and Maintenance of Plant	134.5	47.5	182.0	146.9	43.8	190.7
Principal and Interest on Internal Debt	126.3	0.1	126.4	104.6	0.1	104.7
Transfers to University - University Assessment	47.3	-	47.3	46.6	-	46.6
Transfers to University - Academic Programs	26.9	-	26.9	18.3	-	18.3
Services Purchased	115.9	60.6	176.5	120.1	58.3	178.4
Other Expenses	22.7	39.6	62.3	27.9	44.9	72.8
Total Expenses (b)	979.1	561.0	1,540.1	943.1	549.6	1,492.7
Net Operating Results	(25.1)	67.9	42.8	16.4	62.8	79.2
Investment in Plant and Equipment, net (c)	(22.1)	(20.3)	(42.4)	(15.9)	(15.4)	(31.3)
Net Transfer (to)/from Endowment (d)	0.3	(0.4)	(0.1)	0.2	(2.6)	(2.4)
Other Changes in Net Assets (e)	39.0	7.0	46.0	19.8	0.4	20.2
Net Change in Fiscal Year Activity (a-b+c+d+e)	(7.9)	\$ 54.2	\$ 46.3	\$ 20.5	\$ 45.2	\$ 65.7

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(in millions)

Faculty of Arts and Sciences
Core
Statement of Activity
Fiscal Year Ending June 30, 2020

	Fiscal Year 2020			Fiscal Year 2019		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 462.8	-	\$ 462.8	\$ 475.8	-	\$ 475.8
<i>Less: Financial Aid</i>	(110.5)	(164.0)	(274.5)	(110.6)	(153.9)	(264.5)
Net Tuition and Fees	352.3	(164.0)	188.3	365.2	(153.9)	211.3
Grants and Contracts - direct	-	135.2	135.2	-	142.2	142.2
Grants and Contracts - indirect	39.1	-	39.1	40.0	-	40.0
Endowment Distribution	222.1	379.8	601.9	211.3	362.4	573.7
Other Investment Income	3.5	10.6	14.1	1.4	6.9	8.3
Current-Use Gifts	38.9	52.0	90.9	29.8	53.0	82.8
Transfers from University - Academic Programs	16.7	32.4	49.1	15.3	32.7	48.0
Other Income	0.3	0.1	0.4	16.3	(0.9)	15.4
Total Revenues (a)	672.9	446.1	1,119.0	679.3	442.4	1,121.7
Expenses						
Salaries and Wages	241.9	194.1	436.0	232.1	184.0	416.1
Employee Benefits	77.9	46.4	124.3	63.4	44.2	107.6
Fellowships and Awards	26.0	49.8	75.8	25.0	53.6	78.6
Supplies, Materials and Equipment	15.2	14.5	29.7	19.3	16.4	35.7
Operations and Maintenance of Plant	103.3	31.5	134.8	112.7	29.2	141.9
Principal and Interest on Internal Debt	118.4	0.1	118.5	97.0	0.1	97.1
Transfers to University - University Assessment	35.7	-	35.7	35.3	-	35.3
Transfers to University - Academic Programs	22.9	-	22.9	14.1	-	14.1
Services Purchased	64.5	39.4	103.9	68.0	38.3	106.3
Other Expenses	4.1	26.2	30.3	8.6	29.5	38.1
Total Expenses (b)	709.9	402.0	1,111.9	675.5	395.3	1,070.8
Net Operating Results	(37.0)	44.1	7.1	3.8	47.1	50.9
Investment in Plant and Equipment, net (c)	(20.1)	(11.4)	(31.5)	(9.8)	(11.5)	(21.3)
Net Transfer (to)/from Endowment (d)	0.3	(1.1)	(0.8)	0.2	(1.6)	(1.4)
Other Changes in Net Assets (e)	38.6	7.6	46.2	21.9	-	21.9
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ (18.2)	\$ 39.2	\$ 21.0	\$ 16.1	\$ 34.0	\$ 50.1

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

		June 30	
		2020	2019
ASSETS:			
Deposits with the University.....	(15)	\$ 947.0	\$ 814.4
Receivables			
Student Receivables		\$ 5.8	4.8
Other Receivables		\$ 25.7	32.5
Prepayments and deferred charges.....		\$ 13.0	16.2
Operating leases right of use ⁽ⁱ⁾		\$ 145.4	0.0
Notes Receivable	(16)	\$ 160.0	156.3
Pledges Receivable		\$ 693.7	736.9
Fixed assets, net of accumulated depreciation	(17)	\$ 2,270.8	2,238.2
Interests in perpetual trusts held by others		\$ 103.5	101.5
Long-term investments (primarily endowment).....	(18)	\$ 17,992.5	17,532.6
TOTAL ASSETS		22,357.4	21,633.4
LIABILITIES			
Accrued Expenses		28.7	14.0
Operating Lease Liabilities ⁽ⁱ⁾		145.4	0.0
Deferred Revenue and other liabilities		99.7	90.3
Internal Debt Obligations	(19)	1,356.7	1,295.7
TOTAL LIABILITIES		1,630.5	1,400.0
TOTAL NET ASSETS		20,726.9	20,233.4
TOTAL LIABILITIES AND NET ASSETS		\$ 22,357.4	\$ 21,633.4

¹ The adoption of ASU 2016-02 Leases on July 1, 2019 resulted in the recognition of operating leases right-of-use assets and lease liabilities of \$145.4 million as of the end of fiscal 2020, with no material impact to its Consolidated Statement of Activity.

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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 \$298.9 million in FY20. This is an increase of \$11.2 million or 3.9 percent above FY19. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded over \$2.0 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased over 160.0 percent, from \$80.0 million in 2005 to \$209.9 million in 2020. 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 55.0 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. As a direct result of the COVID-19 pandemic, Harvard College spent nearly \$3.0 million more on financial aid to help students move home and to substitute scholarship aid for a portion of the semester's term-time earnings expectation.

Financial aid presented in the table below excludes \$82.6 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY19 fellowships and awards were \$85.2 million.

(in millions)

	<u>FY 2020</u>	<u>FY 2019</u>
Undergraduate	\$ 211.1	\$ 200.9
Graduate	74.1	73.4
Continuing Education	<u>13.7</u>	<u>13.4</u>
Total Financial Aid	<u>\$ 298.9</u>	<u>\$ 287.7</u>

2. GRANTS AND CONTRACTS

FAS grants and contracts have increased by 1.0 percent in FY20 to \$236.6 million from \$234.3 million in FY19. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2020		
	Direct	Indirect	Total
Federally Sponsored Research			
National Institutes of Health (NIH)	\$ 36.2	\$ 18.2	\$ 54.4
National Science Foundation (NSF)	30.1	13.9	44.0
Department of Defense (DoD)	19.2	8.7	27.9
Other	17.5	8.3	25.8
Subtotal - Federally-Sponsored Research	103.0	49.1	152.1
Non-Federally Sponsored Research	55.4	8.2	63.6
Other Sponsored Awards	20.9	-	20.9
Total Sponsored	\$ 179.3	\$ 57.3	\$ 236.6

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 69.0 percent for organized on-campus research in FY20 and FY19. 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 47.7 percent in FY20, slightly down from 48.4 percent in FY19. 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 \$39.6 million or 5.2 percent, to \$803.6 million in FY20 from \$764.0 million in FY19. The increase above the budgeted increase is related to the impact of the campaign. Endowment income represented 50.8 percent of the FAS's total revenues.

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 5.2 percent in FY20 and 5.1 percent in FY19.

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

Endowment Spend Rate

(in millions)

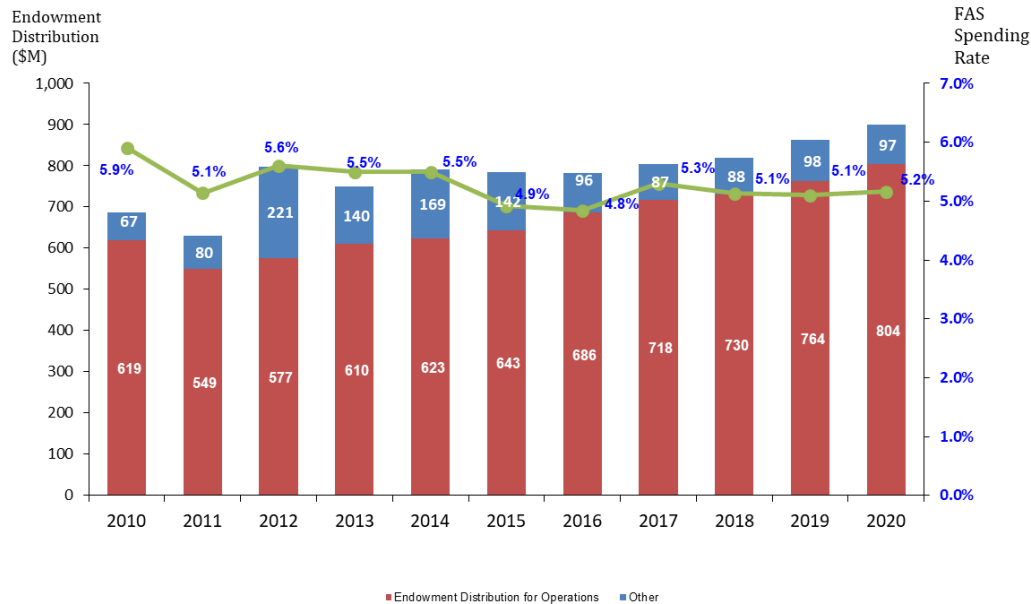
	FY 2020		FY 2019	
	Value	% of Market	Value	% of Market
Endowment distribution	\$ 803.6	4.6%	\$ 764.0	4.5%
Distribution for Central Administrative Operations	89.3	0.5%	84.9	0.5%
Federal NII Tax - GIA ¹	0.0	0.0%	9.8	0.1%
Endowment decapitalizations	7.4	0.0%	3.5	0.0%
Total payout from endowment	\$ 900.3	5.2%	\$ 862.2	5.1%

Beginning-of-year endowment market value ²	\$ 17,442.2	\$ 16,910.4
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¹ 1.4 percent excise tax on the net investment income of private colleges and universities

² Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY10.



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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 FY20 the income received was \$19.7 million, 67.0 percent more than FY19. The high increase is due to a significant increase in interest paid on fund balances, the rate has increased to 2.1 percent in FY20, compared to 1.3 percent in FY19.

5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY20 the FAS received \$68.7 million in income transfers from the Offices of the President and Provost and other University resources. Of this total, \$32.0 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 \$11.9 million of University support was directed to the Harvard College Library, which benefits the FAS and the University; and \$24.8 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 FY20 and FY19:

(in millions)

	<u>FY 2020</u>	<u>FY 2019</u>
Royalty income	\$ 10.8	\$ 24.4
Sales of services	9.5	11.8
Rental Income	6.9	8.3
Admissions application fees	3.9	5.8
Program and event income	3.1	5.6
Publication income	0.7	0.7
Miscellaneous income	11.1	13.8
Other Income	\$ 46.0	\$ 70.4

FY20 Other Income decline is due to a 55.0 percent reduction in royalty income in FY20 and a 23.0 percent reduction across other sources due to University being closed for COVID-19 health emergency. In FY19, royalty income was 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 FY20 these costs represented 50.0 percent of total FAS expenses, compared to 48.5 percent in the prior year. Excluding the costs associated with the Voluntary Employee Retirement Incentive Program (VERIP) expenses of \$16.0 million, the total of \$757.6 million, was \$34.0 million, 4.7 percent higher than FY19 spending of \$723.6 million.

The year-over-year increase for salaries and wages was 4.2 percent. This increase was mainly linked to the annual merit increases for FAS faculty, exempt and union employees averaging 3.2 percent. The benefits component, excluding the VERIP, of the total increased 6.7 percent from the prior year.

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

FAS operations and maintenance expense decreased by \$8.7 million or 4.6 percent, from \$190.7 million in FY19 to \$182.0 million in FY20. At the end of FY20 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 (\$52.5 million); custodial, security and grounds keeping services (\$62.7 million); repairs and maintenance (\$47.9 million); and rental and other fees, net of recoveries (\$18.9 million). Besides expected decreases, such as the reduction in needed swing space for students displaced by house renewal activities, the main driver for the overall decrease related to the campus shutdown due to COVID-19 across several categories, including the reduction in utilities usage in electricity and steam to fewer repairs and less maintenance needed.

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 FY20 the University Assessment increased by 1.5 percent over FY19, from \$46.6 million to \$47.3 million.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY20 the FAS transferred \$26.9 million to the University for Academic Program Support. Of this total, \$13.2 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 \$3.7 million was transferred in FY20 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC). Additionally, in FY20, the FAS transferred \$10.0 million to Harvard University Dining Services (HUDS) to share in lost revenue as a result of the campus shutdown related to COVID-19.

In FY19 the FAS transferred \$12.7 million to the Academic Initiatives Fund, made a \$5.6 million contribution to HUSEC, for a total of \$18.3 million.

11. OTHER EXPENSES

Other expenses decreased by 14.4 percent from \$72.8 million in FY19 to \$62.3 million in FY20. Major cost components in this category include: travel and events costs (\$24.8 million), other institutional activity (\$8.0 million), and interest expense (\$6.5 million). The balance (\$23.0 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 \$182.8 million in FY20. Of that, capital expenditures for equipment comprised \$47.4 million of this total. The balance of \$135.4 million was invested in improvements to plant: \$52.8 million of spending for the House Renewal Program, \$18.0 million on renovations for faculty, \$25.0 million on programmatic renovations (\$16.0 million in the Expanded Core and \$9.0 million in the Affiliates) and \$39.6 million in maintenance and capital renewal projects.

Funding for capital spending in FY20 and FY19 came from the following sources:

(in millions)

	FY20	FY19
Total Capital Spending	(\$182.8)	(\$228.0)
Less: Debt Proceeds	94.7	163.0
Less: Construction Gifts	41.6	23.9
Less: Funds Designated for Construction/ Other	4.1	9.8
Investment in Plant and Equipment, net	\$ (42.4)	\$ (31.3)

FAS spent \$42.4 million of operating funds for capital projects and equipment; of that \$35.9 million was spent on equipment for faculty research.

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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 FY20 the FAS returned \$0.1 million to the endowment, representing endowment capitalizations net of decapitalizations. The equivalent figure in FY19 was \$2.4 million. The change is driven by an increase in decapitalizations of \$2.5 million to support operations during COVID-19.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets in FY20 totaled \$46.0 million. This includes \$35.2 million related to restructuring the FAS's internal debt schedule with the University. Additionally, there were \$7.2 million of distributions from split interest agreements and \$2.6 million in transfers from donor advised funds. This is offset by debt paydown related to asset impairments of (\$1.6) million. The debt paydown includes (\$0.7) million related to the updating of research space and (\$0.9) 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, 2020, deposits were \$947.0 million, up \$132.6 million from \$814.4 million in the prior year. This increase was primarily driven by debt funded construction.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2020 and 2019 were as follows:

<i>(in millions)</i>	<u>FY 2020</u>		<u>FY 2019</u>	
Student Notes Receivable:				
University Loan Program	\$	33.3	\$	34.2
Faculty and Staff		126.7		122.1
Total Notes Receivable	\$	160.0	\$	156.3

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 FY20 capital spending as noted in footnote 12, assets may increase or decrease through acquisitions, sales or impairments.

For the period ended June 30, 2020, right-of-use assets from finance leases of \$8.9 million are included in “Fixed assets, net of accumulated depreciation” and lease liabilities from finance leases of \$8.9 million are included in “Deferred revenue and other liabilities” in the Balance Sheet.

The table below summarizes FAS assets as of June 30, 2020 and 2019:

<i>(in millions)</i>	FY2020		FY 2019	
Research facilities	\$	1,329.1	\$	1,288.6
Classrooms and offices		549.7		516.8
Housing facilities		1,129.0		1,116.4
Libraries		243.0		235.9
Museums and assembly facilities		180.1		169.4
Athletic facilities		199.2		193.8
Service facilities		42.0		37.8
Leasehold improvements		95.2		93.9
Land		5.6		5.6
Construction in Progress		99.5		102.7
Equipment		423.1		383.0
Total fixed assets at cost		4,295.5		4,143.9
Less: accumulated depreciation		(2,024.7)		(1,905.7)
Total fixed assets, net	\$	2,270.8	\$	2,238.2

In FY20 the largest increase in the FAS Physical Plant was in research facilities, resulting from the project with the Conant Chemistry Lab and the Biological Lab Buildings.

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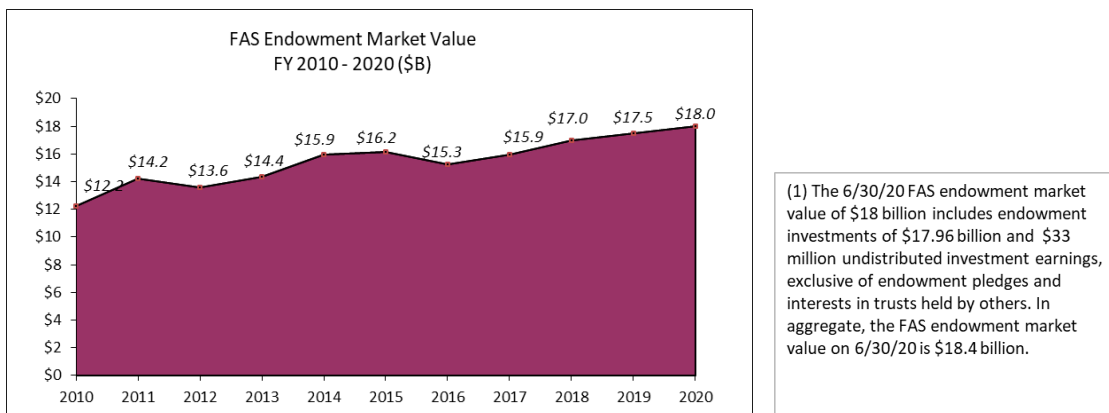
18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily endowment, totaled \$18.0 billion at FY20 year end. The market value of these investments increased by \$0.5 billion, or 2.6 percent, from June 30, 2019. This change was primarily driven by the combination of market returns of 7.3 percent and the funding of the annual 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, 2020 and 2019:

<i>(in millions)</i>	FY2020	FY 2019
Endowment investments	\$ 17,967.2	\$ 17,505.8
Gift fund investments	1.3	2.8
General Operating Account investments	24.0	24.0
Total Long term investments	\$ 17,992.5	\$ 17,532.6

The charts below summarize the FAS endowment market value over the past ten years:



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19. INTERNAL DEBT OBLIGATIONS

At the end of FY20 the FAS's outstanding debt was \$1,356.7 million, \$61.0 million (4.7 percent) more than in FY19.

<i>(in millions)</i>	FY2020	FY2019
Long-Term Debt	\$ 1,229.9	\$ 1,173.6
Faculty Loans	126.8	122.1
Total Debt and Notes Payable	\$ 1,356.7	\$ 1,295.7

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. In FY20 the FAS long-term debt portfolio increased by \$56.3 million. \$35.1 million of this increase was related to the decision to restructure FAS's internal debt schedule with the University. Additionally, \$22.0 million of this increase is due to House Renewal.

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.

22. MODIFIED GAAP PRESENTATION

Beginning in FY14 the FAS began reporting results on a Modified GAAP basis, which has been defined by the University. The Modified GAAP Statement of Activity includes operating revenues less operating expenses, including depreciation expense. Its purpose is to assess the ability of the FAS to generate sufficient revenue to cover all operating expenditures, including depreciation. The following FY20 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, 2020

	Fiscal Year 2020		
	Total - All Funds	Adjustments ⁽¹⁾	Modified GAAP
revenues			
Tuition and Fees	\$ 598.9		\$ 598.9
<i>Less: Financial Aid</i>	(298.9)		(298.9)
Net Tuition and Fees	300.0	-	300.0
Grants and Contracts - direct	179.3		179.3
Grants and Contracts - indirect	57.3		57.3
Endowment Distribution	803.6		803.6
Other Investment Income	19.7		19.7
Current-Use Gifts	108.3		108.3
Transfers from University - Academic Programs	68.7		68.7
Other Income	46.0		46.0
Income Reclasses		(26.9)	(26.9)
Total Revenues	1,582.9	(26.9)	1,556.0
Expenses			
Salaries and Wages	604.0		604.0
Employee Benefits	169.6		169.6
Fellowships and Awards	82.6		82.6
Supplies, Materials and Equipment	62.5		62.5
Operations and Maintenance of Plant	182.0		182.0
Principal and Interest on Internal Debt	126.4	(80.5)	45.9
Depreciation Expense	-	139.1	139.1
Transfers to University - University Assessment	47.3		47.3
Transfers to University - Academic Programs	26.9		26.9
Services Purchased	176.5		176.5
Other Expenses	62.3		62.3
Expense Reclasses		(26.9)	(26.9)
Total Expenses	1,540.1	31.7	1,571.8
Net Operating Results	42.8	(58.6)	\$ (15.8)
Depreciation		139.1	139.1
Cash Flow Provided by (Used in) Operating Activities		80.5	123.3
Investment in Plant and Equipment, net	(42.4)	42.4	0.0
Capital Acquisitions and Expenditures		(176.4)	(176.4)
Cash Flow Provided By (Used in) Investing Activities		(134.0)	(176.4)
Principal Payments (internal loans)			(80.5)
Financing Activities			
Net Transfer (to)/from Endowment	(0.1)		(0.1)
New Debt (internal loans)		94.3	94.3
Principal Pre-payments (internal loans)		(1.6)	(1.6)
Construction Gifts Applied		27.7	27.7
Split Interest Agreements and Other Changes in Net Assets	46.0	13.6	59.6
Cash Flow Provided By (Used in) Financing Activities		134.0	179.9
Net Change in Fiscal Year Activity	\$ 46.3	\$ 0.0	\$ 46.3

(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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