

APPENDIX

FACULTY OF ARTS AND SCIENCES

FINANCIAL REPORT

FISCAL YEAR 2021

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, 2021

	<u>Fiscal Year 2021</u>	<u>Fiscal Year 2020</u>
Revenues		
Tuition and Fees	\$ 496.0	\$ 598.9
<i>Less: Financial Aid</i>	<u>(263.2)</u>	<u>(298.9)</u>
Net Tuition and Fees	232.8	300.0
Grants and Contracts - direct	187.8	179.3
Grants and Contracts - indirect	61.0	57.3
Endowment Distribution	821.1	803.6
Other Investment Income	14.3	19.7
Current-Use Gifts	130.0	108.3
Transfers from University - Academic Programs	77.7	68.7
Other Income	42.2	46.0
Income Reclasses ⁽¹⁾	<u>(3.9)</u>	<u>(26.9)</u>
Total Revenues	1,563.0	1,556.0
Expenses		
Salaries and Wages	594.2	603.9
Employee Benefits	158.2	169.6
Fellowships and Awards	80.9	82.6
Supplies, Materials and Equipment	56.4	62.5
Operations and Maintenance of Plant	176.5	182.0
Interest on Internal Debt	45.4	45.9
Depreciation Expense	140.0	139.1
Transfers to University - University Assessment	47.3	47.3
Transfers to University - Academic Programs	3.9	26.9
Services Purchased	179.0	176.5
Other Expenses	33.8	62.3
Expense Reclasses ⁽¹⁾	<u>(3.9)</u>	<u>(26.9)</u>
Total Expenses	1,511.7	1,571.8
Net Operating Results	<u>\$ 51.3</u>	<u>\$ (15.8)</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, 2021

	Fiscal Year 2021			Fiscal Year 2020		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 496.0	\$ -	\$ 496.0	\$ 598.9	\$ -	\$ 598.9
<i>Less: Financial Aid</i>	(1) (81.2)	(182.0)	(263.2)	(125.0)	(173.9)	(298.9)
Net Tuition and Fees	414.8	(182.0)	232.8	473.9	(173.9)	300.0
Grants and Contracts - direct	(2) -	187.8	187.8	-	179.3	179.3
Grants and Contracts - indirect	(2) 61.0	-	61.0	57.3	-	57.3
Endowment Distribution	(3) 330.1	491.0	821.1	298.2	505.4	803.6
Other Investment Income	(4) 3.2	11.1	14.3	5.5	14.2	19.7
Current-Use Gifts	45.2	84.8	130.0	39.9	68.4	108.3
Transfers from University - Academic Programs	(5) 44.4	33.3	77.7	33.0	35.7	68.7
Other Income	(6) 42.7	(0.5)	42.2	46.2	(0.2)	46.0
Total Revenues (a)	941.4	625.5	1,566.9	954.0	628.9	1,582.9
Expenses						
Salaries and Wages	(7) 321.7	272.5	594.2	344.7	259.3	604.0
Employee Benefits	91.0	67.2	158.2	106.1	63.5	169.6
Fellowships and Awards	25.9	55.0	80.9	27.6	55.0	82.6
Supplies, Materials and Equipment	24.4	32.0	56.4	27.1	35.4	62.5
Operations and Maintenance of Plant	(8) 132.8	43.7	176.5	134.5	47.5	182.0
Principal and Interest on Internal Debt	131.4	0.1	131.5	126.3	0.1	126.4
Transfers to University - University Assessment	(9) 47.3	-	47.3	47.3	-	47.3
Transfers to University - Academic Programs	(10) 3.9	-	3.9	26.9	-	26.9
Services Purchased	120.6	58.4	179.0	115.9	60.6	176.5
Other Expenses	(11) 11.0	22.8	33.8	22.7	39.6	62.3
Total Expenses (b)	910.0	551.7	1,461.7	979.1	561.0	1,540.1
Net Operating Results	31.4	73.8	105.2	(25.1)	67.9	42.8
Investment in Plant and Equipment, net (c)	(12) (27.1)	(20.7)	(47.8)	(22.1)	(20.3)	(42.4)
Net Transfer (to)/from Endowment (d)	(13) 1.3	(7.3)	(6.0)	0.3	(0.4)	(0.1)
Other Changes in Net Assets (e)	(14) 75.2	4.5	79.7	39.0	7.0	46.0
Net Change in Fiscal Year Activity (a-b+c+d+e)	<u>\$ 80.8</u>	<u>\$ 50.3</u>	<u>\$ 131.1</u>	<u>\$ (7.9)</u>	<u>\$ 54.2</u>	<u>\$ 46.3</u>

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(in millions)

Faculty of Arts and Sciences
Core
Statement of Activity
Fiscal Year Ending June 30, 2021

	Fiscal Year 2021			Fiscal Year 2020		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 348.5	\$ -	\$ 348.5	\$ 462.8	\$ -	\$ 462.8
<i>Less: Financial Aid</i>	(69.0)	(171.3)	(240.3)	(110.5)	(164.0)	(274.5)
Net Tuition and Fees	279.5	(171.3)	108.2	352.3	(164.0)	188.3
Grants and Contracts - direct	-	142.5	142.5	-	135.2	135.2
Grants and Contracts - indirect	40.4	-	40.4	39.1	-	39.1
Endowment Distribution	253.6	369.3	622.9	222.1	379.8	601.9
Other Investment Income	1.8	8.6	10.4	3.5	10.6	14.1
Current-Use Gifts	44.9	71.8	116.7	38.9	52.0	90.9
Transfers from University - Academic Programs	27.9	29.9	57.8	16.7	32.4	49.1
Other Income	9.8	0.3	10.1	0.3	0.1	0.4
Total Revenues (a)	657.9	451.1	1,109.0	672.9	446.1	1,119.0
Expenses						
Salaries and Wages	217.7	205.8	423.5	241.9	194.1	436.0
Employee Benefits	59.5	48.9	108.4	77.9	46.4	124.3
Fellowships and Awards	24.3	51.0	75.3	26.0	49.8	75.8
Supplies, Materials and Equipment	15.2	14.2	29.4	15.2	14.5	29.7
Operations and Maintenance of Plant	100.3	29.5	129.8	103.3	31.5	134.8
Principal and Interest on Internal Debt	123.3	0.1	123.4	118.4	0.1	118.5
Transfers to University - University Assessment	35.5	-	35.5	35.7	-	35.7
Transfers to University - Academic Programs	3.6	-	3.6	22.9	-	22.9
Services Purchased	70.1	37.3	107.4	64.5	39.4	103.9
Other Expenses	1.3	14.8	16.1	4.1	26.2	30.3
Total Expenses (b)	650.8	401.6	1,052.4	709.9	402.0	1,111.9
Net Operating Results	7.1	49.5	56.6	(37.0)	44.1	7.1
Investment in Plant and Equipment, net (c)	(9.4)	(14.5)	(23.9)	(20.1)	(11.4)	(31.5)
Net Transfer (to)/from Endowment (d)	1.2	(3.2)	(2.0)	0.3	(1.1)	(0.8)
Other Changes in Net Assets (e)	68.8	3.7	72.5	38.6	7.6	46.2
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ 67.7	\$ 35.5	\$ 103.2	\$ (18.2)	\$ 39.2	\$ 21.0

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

		June 30	
		2021	2020
ASSETS:			
Deposits with the University.....	(15)	\$ 1,123.6	\$ 947.0
Receivables			
Student Receivables		5.0	5.8
Other Receivables		28.9	25.7
Prepayments and deferred charges.....		14.9	13.0
Operating leases right of use		136.2	145.4
Notes Receivable	(16)	158.4	160.0
Pledges Receivable		773.5	693.7
Fixed assets, net of accumulated depreciation	(17)	2,246.3	2,270.8
Interests in perpetual trusts held by others		126.2	103.5
Long-term investments (primarily endowment).....	(18)	23,039.4	17,992.5
TOTAL ASSETS		\$ 27,652.4	\$ 22,357.4
LIABILITIES			
Accrued Expenses		0.8	28.7
Operating Lease Liabilities		136.2	145.4
Deferred Revenue and other liabilities		92.7	99.7
Internal Debt Obligations	(19)	1,356.5	1,356.7
TOTAL LIABILITIES		1,586.2	1,630.5
TOTAL NET ASSETS		26,066.2	20,726.9
TOTAL LIABILITIES AND NET ASSETS		\$ 27,652.4	\$ 22,357.4

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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 \$263.2 million in FY21. This is a decrease of \$35.7 million or 11.9 percent from FY20. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded over \$2.5 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased over 160%, from \$80 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 57 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 and lower enrollment, Harvard College spent \$173.7 million financial aid, down \$37.4 million from FY20.

Financial aid presented in the table below excludes \$80.9 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY20 fellowships and awards were \$82.6 million.

(in millions)

	<u>FY 2021</u>	<u>FY 2020</u>
Undergraduate	\$ 173.7	\$ 211.1
Graduate	76.2	74.1
Continuing Education	<u>13.3</u>	<u>13.7</u>
Total Financial Aid	<u>\$ 263.2</u>	<u>\$ 298.9</u>

2. GRANTS AND CONTRACTS

FAS grants and contracts have increased by 5.2 percent in FY21 to \$248.8 million from \$236.6 million in FY20. Grants and contracts are comprised of the following:

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(in millions)	FY 2021		
	Direct	Indirect	Total
Federally Sponsored Research			
National Institutes of Health (NIH)	\$ 36.6	\$ 19.7	\$ 56.3
National Science Foundation (NSF)	29.9	13.9	43.8
Department of Defense (DoD)	23.7	9.5	33.2
Other	18.2	8.3	26.5
Subtotal - Federally-Sponsored Research	108.4	51.4	159.8
Non-Federally Sponsored Research	57.4	9.6	67.0
Other Sponsored Awards	22.0	-	22.0
Total Sponsored	\$ 187.8	\$ 61.0	\$ 248.8

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 FY21 and FY20. 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 47.4 percent in FY21, slightly down from 47.7 percent in FY20. 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 \$17.5 million or 2.2 percent, to \$821.1 million in FY21 from \$803.6 million in FY20. The increase above the budgeted 0 percent increase over FY20 distributions is related to new fundraising and campaign pledge payments. Endowment income represented 52.4 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 5.1 percent in FY21 and 5.2 percent in FY20.

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

Endowment Spend Rate

(in millions)

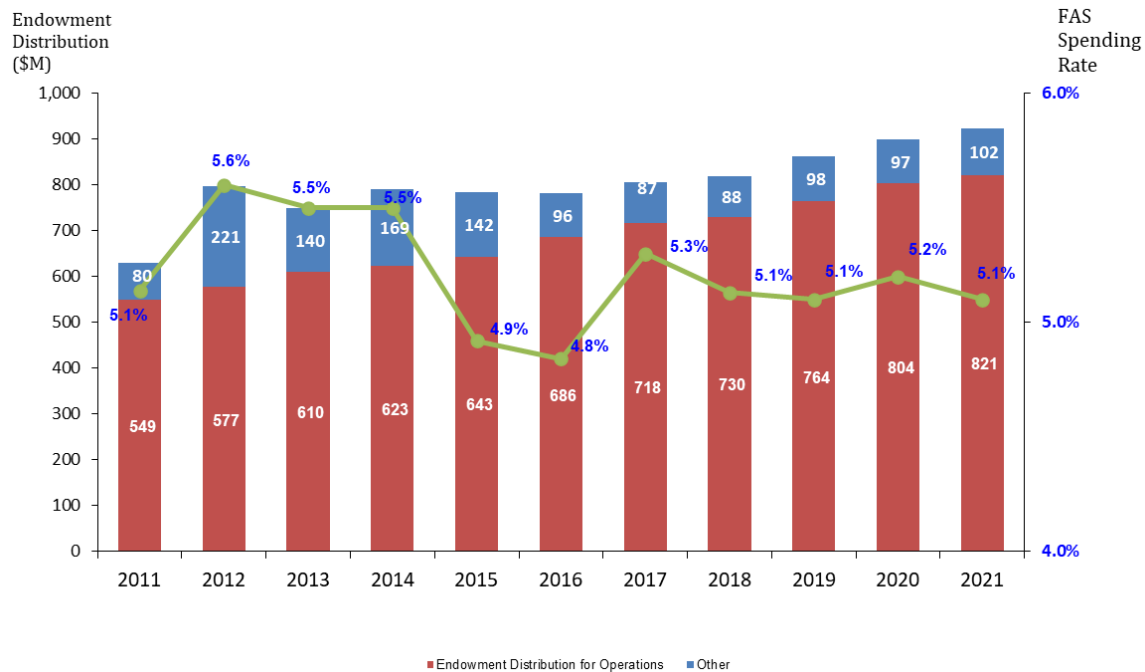
	FY 2021		FY 2020	
	Value	% of Market	Value	% of Market
Endowment distribution	\$ 821.1	4.6%	\$ 803.6	4.6%
Distribution for Central Administrative Operations	91.2	0.5%	89.3	0.5%
Federal NII Tax - GIA ¹	7.5	0.0%	(0.0)	0.0%
Endowment decapitalizations	3.4	0.0%	7.4	0.0%
Total payout from endowment	\$ 923.2	5.1%	\$ 900.3	5.2%

Beginning-of-year endowment market value² \$ 17,934.2 \$ 17,442.2

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 FY11.



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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 FY21 the income received was \$14.3 million, 27.4 percent less than FY20. The high decrease is due to a significant decrease in the interest paid on fund balances, the rate has decreased to 1.25 percent in FY21, compared to 2.1 percent in FY20.

5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY21 the FAS received \$77.7 million in income transfers from the Offices of the President and Provost and other University resources. Of this total, \$35.7 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 \$10.3 million of University support was directed to the Harvard College Library, which benefits the FAS and the University; and \$31.7 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 FY21 and FY20:

(in millions)

	<u>FY 2021</u>		<u>FY 2020</u>	
Royalty income	\$	15.8	\$	10.8
Sales of services		6.3		9.5
Rental Income		4.7		6.9
Admissions application fees		4.4		3.9
Program and event income		1.0		3.1
Publication income		0.9		0.7
Miscellaneous income		9.1		11.1
Other Income	\$	42.2	\$	46.0

FY21 Other Income has declined 8.3 percent - a combination of 46.7 percent increase in Royalty income and a 23 percent decline from programs, events and sales due to University being closed for COVID-19 health emergency. 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 FY21 these costs represented 51.5 percent of total FAS expenses, compared to 50.2 percent in the prior year. The total of \$752.4 million was \$5.2 million or 0.7 percent less than FY20 spending of \$757.6 million, excluding the VERIP expenses of \$16.0 million.

The annual merit increases for FAS union employees was 3.3 percent, FAS Faculty and exempt employees did not receive annual merit increases in FY21. The benefits component of the total year-over-year change was relatively flat, increasing only 0.7 percent from the prior year.

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

FAS operations and maintenance expense decreased by \$5.5 million or 3.0 percent, from \$182.0 million in FY20 to \$176.5 million in FY21. At the end of FY21 the FAS campus included 266 owned buildings comprising approximately 10.1 million gross square feet. Operations and maintenance of plant includes custodial, security and grounds keeping services (\$56.9 million); the cost of utilities (\$51.3 million); repairs and maintenance (\$46.6 million); and rental and other fees, net of recoveries (\$21.7 million). The main driver for the overall decrease is related to the campus shutdown due to COVID-19 across several categories, including the reduction in utilities usage (sewage, electricity, and steam) as well as 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 trailing three-year total expenses. (i.e., FY17-FY19 average for the FY21 Assessment). Due to the economic impact of COVID-19, the University Assessment remained flat over FY20 at \$47.3 million.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY21 the FAS transferred \$3.9 million to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

For FY21, the Academic Initiatives Fund was suspended. The Academic Initiatives Fund 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

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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).

In FY20 the FAS transferred \$13.2 million to the Academic Initiatives Fund and made a \$3.7 million contribution to HUSEC. FAS also transferred \$10.0 million to Harvard University Dining Services (HUDS) in FY20 to share in lost revenue as a result of the campus shutdown related to COVID-19, for a total of \$26.9 million.

11. OTHER EXPENSES

Other expenses decreased by 45.7 percent from \$62.3 million in FY20 to \$33.8 million in FY21. Major cost components in this category include: other institutional activity (\$7.6 million), insurance and losses (\$4.3 million) and telephones and telecommunication (\$4.0 million). The balance (\$17.9 million) was made up of other 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 \$131.1 million or a 28.3 percent decrease from prior year due to reduced capital spending due to COVID-19. Of that, capital expenditures for equipment comprised \$35.8 million of this total. The balance of \$95.3 million was invested in improvements to plant: \$39.2 million of spending for the House Renewal Program, \$13.3 million on renovations for faculty, and investment in programmatic renovations and maintenance and capital renewal projects was \$42.8 million.

Funding for capital spending in FY21 and FY20 came from the following sources:
(in millions)

	<u>Fy21</u>	<u>FY20</u>
Total Capital Spending	(\$131.1)	(\$182.8)
Less: Debt Proceeds	65.2	94.7
Less: Construction Gifts	13.7	41.6
Less: Funds Designated for Construction/ Other	<u>4.4</u>	<u>4.1</u>
Investment in Plant and Equipment, net	\$ (47.8)	\$ (42.4)

FAS spent \$47.8 million of operating funds for capital projects and equipment; of that \$29.5 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 FY21 the FAS returned \$6.0 million to the endowment, representing endowment capitalizations net of decapitalizations. The equivalent figure in FY20 was \$0.1 million. The change is driven by both an increase in capitalizations of \$2.8M and a decrease in decapitalizations of \$3.1 million.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets in FY21 totaled \$79.7 million revenue to FAS. This includes \$ 35.8 million related to restructuring the FAS's internal debt schedule with the University and \$6.7 million of distributions from split interest agreements. Additionally, \$40.0 million in special resources support was received to help defray costs associated with the pandemic. This is offset by \$2.8 million in net transfers between fund groups, \$1.4 million of which is debt write-off related to House Renewal asset impairments.

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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, 2021, deposits were \$1,123.6 million, up \$176.6 million from \$947.0 million in the prior year. This increase was primarily driven by debt funded construction.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2021 and 2020 were as follows:
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<i>(in millions)</i>	FY 2021		FY 2020	
Student Notes Receivable:				
University Loan Program	\$	29.1	\$	33.3
Faculty and Staff		129.3		126.7
Total Notes Receivable	\$	158.4	\$	160.0

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 calculated using the straight-line method computed over the useful life of the asset. In addition to FY21 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, 2021 and 2020:

<i>(in millions)</i>	FY2021		FY2020	
Research facilities	\$	1,346.1	\$	1,329.1
Classrooms and offices		552.9		549.7
Housing facilities		1,187.1		1,129.0
Libraries		253.3		243.0
Museums and assembly facilities		187.4		180.1
Athletic facilities		212.2		199.2
Service facilities		42.0		42.0
Leasehold improvements		93.0		95.2
Land		5.6		5.6
Construction in Progress		69.8		99.5
Equipment		432.9		423.1
Total fixed assets at cost		4,382.3		4,295.5
Less: accumulated depreciation		(2,136.0)		(2,024.7)
Total fixed assets, net	\$	2,246.3	\$	2,270.8

In FY21 the largest increase in the FAS Physical Plant was in housing facilities, resulting from the housing renewal project with Adams House.

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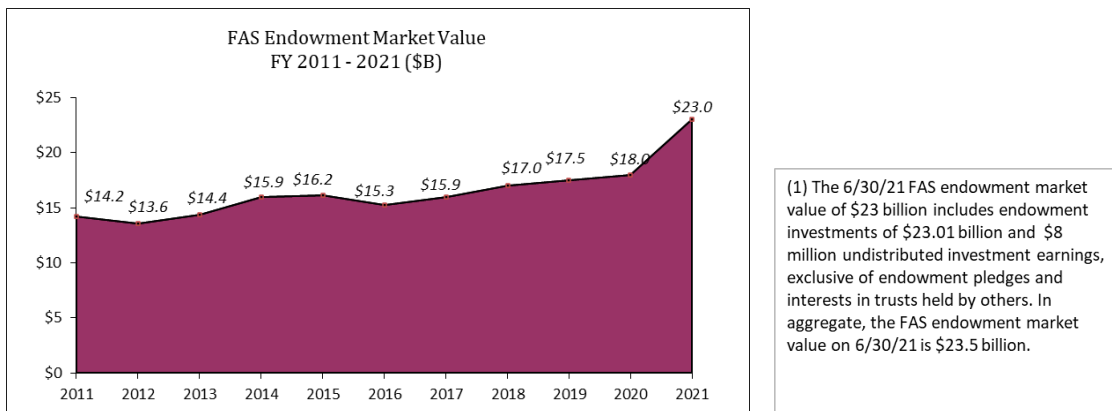
18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily endowment, totaled \$23.0 billion at FY21 year end. The market value of these investments increased by \$5 billion, or 28 percent, from June 30, 2020. This change was primarily driven by the combination of market returns of 33.6 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, 2021 and 2020:

<i>(in millions)</i>	FY2021	FY2020
Endowment investments	\$ 23,014.3	\$ 17,967.2
Gift fund investments	1.0	1.3
General Operating Account investments	24.0	24.0
Total Long term investments	\$ 23,039.4	\$ 17,992.5

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 FY21 the FAS's outstanding debt was \$1,356.5 million, \$0.2 million less than in FY20.

<i>(in millions)</i>	FY2021	FY2020
Long-Term Debt	\$ 1,227.2	\$ 1,229.9
Faculty Loans	129.3	126.8
Total Debt and Notes Payable	\$ 1,356.5	\$ 1,356.7

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. In FY21, the FAS long-term debt portfolio remained relatively flat due to less debt spending on construction related projects.

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 FY21 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, 2021

	Fiscal Year 2021		
	Total - All Funds	Adjustments ⁽¹⁾	Modified GAAP
Revenues			
Tuition and Fees	\$ 496.0		\$ 496.0
<i>Less: Financial Aid</i>	<i>(263.2)</i>		<i>(263.2)</i>
Net Tuition and Fees	232.8	-	232.8
Grants and Contracts - direct	187.8		187.8
Grants and Contracts - indirect	61.0		61.0
Endowment Distribution	821.1		821.1
Other Investment Income	14.3		14.3
Current-Use Gifts	130.0		130.0
Transfers from University - Academic Programs	77.7		77.7
Other Income	42.2		42.2
Income Reclasses		(3.9)	(3.9)
Total Revenues	1,566.9	(3.9)	1,563.0
Expenses			
Salaries and Wages	594.2		594.2
Employee Benefits	158.2		158.2
Fellowships and Awards	80.9		80.9
Supplies, Materials and Equipment	56.4		56.4
Operations and Maintenance of Plant	176.5		176.5
Principal and Interest on Internal Debt	131.5	(86.1)	45.4
Depreciation Expense	-	140.0	140.0
Transfers to University - University Assessment	47.3		47.3
Transfers to University - Academic Programs	3.9		3.9
Services Purchased	179.0		179.0
Other Expenses	33.8		33.8
Expense Reclasses		(3.9)	(3.9)
Total Expenses	1,461.7	50.0	1,511.7
Net Operating Results	105.2	(53.9)	\$ 51.3
Depreciation		140.0	140.0
Cash Flow Provided by (Used in) Operating Activities		86.1	191.3
Investment in Plant and Equipment, net	(47.8)	47.8	-
Capital Acquisitions and Expenditures		(119.1)	(119.1)
Cash Flow Provided By (Used in) Investing Activities		(71.3)	(119.1)
Principal Payments (internal loans)			(86.1)
Financing Activities			
Net Transfer (to)/from Endowment	(6.0)		(6.0)
New Debt (internal loans)		65.8	65.8
Principal Pre-payments (internal loans)		(1.9)	(1.9)
Construction Gifts Applied		68.4	68.4
Split Interest Agreements and Other Changes in Net Assets	79.7	(61.0)	18.7
Cash Flow Provided By (Used in) Financing Activities		71.3	145.0
Net Change in Fiscal Year Activity	\$ 131.1	\$ 0.0	\$ 131.1

(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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