

# APPENDIX

## FACULTY OF ARTS AND SCIENCES MANAGERIAL FINANCIAL REPORT

FISCAL YEAR 2014

HARVARD UNIVERSITY

**This statement presents a managerial review of the Faculty of Arts and Sciences of Harvard University operations. The figures presented in the report have not been audited, are not intended to present financial results in accordance with generally accepted accounting principles (GAAP), and do not represent a subset of the University's financial statements and related footnotes. A modified GAAP statement has been included as defined in footnote 22.**

(in millions)

**Faculty of Arts and Sciences**  
**Consolidated**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2014**

	note	Fiscal Year 2014			Fiscal Year 2013		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>							
Tuition and Fees		\$ 477.7	-	\$ 477.7	\$ 456.1	-	\$ 456.1
Less: Financial Aid	(1)	(87.2)	(148.7)	(235.9)	(94.4)	(136.0)	(230.4)
Net Tuition and Fees		390.5	(148.7)	241.8	361.7	(136.0)	225.7
Grants and Contracts - direct	(2)	-	163.0	163.0	-	155.0	155.0
Grants and Contracts - indirect		52.4	--	52.4	53.7	--	53.7
Endowment Distribution	(3)	213.0	411.5	624.5	208.5	401.7	610.2
Other Investment Income	(4)	1.0	1.7	2.7	1.1	1.6	2.7
Current-Use Gifts		40.4	59.0	99.4	30.0	79.6	109.6
Transfers from University - Academic Programs	(5)	21.9	23.5	45.4	34.0	26.6	60.6
Other Income	(6)	46.3	0.3	46.6	43.8	0.0	43.8
Total Revenues (a)		765.5	510.3	1,275.8	732.8	528.5	1,261.3
<b>Expenses</b>							
Salaries and Wages	(7)	241.4	223.5	464.9	229.5	214.7	444.2
Employee Benefits		71.6	57.0	128.6	67.9	57.3	125.2
Fellowships and Awards		16.3	56.7	73.0	15.6	54.1	69.7
Supplies, Materials and Equipment		26.1	42.9	69.0	20.5	39.5	60.0
Operations and Maintenance of Plant	(8)	116.8	38.1	154.9	103.5	38.8	142.3
Principal and Interest on Internal Debt		92.2	0.1	92.3	92.5	0.1	92.6
Transfers to University - University Assessment	(9)	41.8	-	41.8	40.1	-	40.1
Transfers to University - Academic Programs	(10)	18.2	-	18.2	22.4	0.5	22.9
Services Purchased		95.6	54.5	150.1	93.4	55.2	148.6
Other Expenses	(11)	32.2	34.4	66.6	25.8	35.4	61.2
Total Expenses (b)		752.2	507.2	1,259.4	711.2	495.6	1,206.8
<b>Net Operating Results</b>		13.3	3.1	16.4	21.6	32.9	54.5
<b>Investment in Plant and Equipment, net (c)</b>	(12)	(122.7)	(28.0)	(150.7)	(67.9)	(36.2)	(104.1)
<b>Net Transfer (to)/from Endowment (d)</b>	(13)	43.3	29.0	72.3	25.6	40.2	65.8
<b>Other Changes in Net Assets (e)</b>	(14)	(4.0)	(11.0)	(15.0)	8.5	6.5	15.0
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>		\$ (70.1)	\$ (6.9)	\$ (77.0)	(12.2)	\$ 43.4	\$ 31.2

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(in millions)

**Faculty of Arts and Sciences**  
**Core**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2014**

	Fiscal Year 2014			Fiscal Year 2013		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>						
Tuition and Fees	\$ 395.6	-	\$ 395.6	\$ 377.5	-	\$ 377.5
<i>Less: Financial Aid</i>	(80.8)	(140.6)	(221.4)	(88.2)	(127.6)	(215.8)
Net Tuition and Fees	314.8	(140.6)	174.2	289.3	(127.6)	161.7
Grants and Contracts - direct	-	124.3	124.3	-	119.8	119.8
Grants and Contracts - indirect	37.4	-	37.4	38.9	--	38.9
Endowment Distribution	178.3	295.4	473.7	174.8	289.3	464.1
Other Investment Income	0.3	0.8	1.1	0.3	0.7	1.0
Current-Use Gifts	39.5	45.0	84.5	29.6	67.7	97.3
Transfers from University - Academic Programs	8.5	21.8	30.3	20.3	24.9	45.2
Other Income	8.3	0.6	8.9	9.1	1.5	10.6
Total Revenues (a)	587.1	347.3	934.4	562.3	376.3	938.6
<b>Expenses</b>						
Salaries and Wages	180.5	160.2	340.7	172.9	153.5	326.4
Employee Benefits	54.3	39.8	94.1	51.6	40.1	91.7
Fellowships and Awards	15.9	52.4	68.3	15.2	50.3	65.5
Supplies, Materials and Equipment	13.2	21.3	34.5	10.2	20.9	31.1
Operations and Maintenance of Plant	93.8	26.0	119.8	83.1	27.2	110.3
Principal and Interest on Internal Debt	86.0	0.1	86.1	86.6	0.1	86.7
Transfers to University - University Assessment	32.0	-	32.0	30.7	-	30.7
Transfers to University - Academic Programs	14.4	-	14.4	18.8	0.5	19.3
Services Purchased	58.2	32.7	90.9	55.8	33.4	89.2
Other Expenses	15.1	21.7	36.8	9.1	24.5	33.6
Total Expenses (b)	563.4	354.2	917.6	534.0	350.5	884.5
<b>Net Operating Results</b>	23.7	(6.9)	16.8	28.3	25.8	54.1
<b>Investment in Plant and Equipment, net (c)</b>	(117.7)	(20.0)	(137.7)	(45.4)	(27.3)	(72.7)
<b>Net Transfer (to)/from Endowment (d)</b>	43.3	27.5	70.8	25.6	34.2	59.8
<b>Other Changes in Net Assets (e)</b>	(4.4)	(15.3)	(19.7)	8.2	6.0	14.2
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>	<b>\$ (55.1)</b>	<b>\$ (14.7)</b>	<b>\$ (69.8)</b>	<b>\$ 16.7</b>	<b>\$ 38.7</b>	<b>\$ 55.4</b>

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

(in millions)

		June 30	
	<i>note</i>	2014	2013
<b>ASSETS:</b>			
Deposits with the University.....	(15)	\$ 704.9	\$ 701.7
Receivables			
Student Receivables .....		5.0	3.1
Other Receivables .....		32.9	29.9
Prepayments and deferred charges.....		19.4	17.3
Notes Receivable .....	(16)	145.1	145.0
Pledges Receivable .....		478.6	337.1
Fixed assets, net of accumulated depreciation .....	(17)	1,707.5	1,625.4
Interests in perpetual trusts held by others .....		86.8	82.6
Long-term investments (primarily endowment).....	(18)	15,843.9	14,312.6
<b>TOTAL ASSETS</b>		<b>19,024.1</b>	<b>17,254.7</b>
<b>LIABILITIES:</b>			
Accrued Expenses .....		14.1	18.1
Deferred Revenue and other liabilities .....		72.7	68.2
Internal Debt Obligations .....	(19)	869.4	899.0
Government loan advances .....	(20)	8.7	9.0
<b>TOTAL LIABILITIES</b>		<b>964.9</b>	<b>994.3</b>
<b>TOTAL NET ASSETS</b>	(21)	<b>18,059.2</b>	<b>16,260.4</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 19,024.1</b>	<b>\$ 17,254.7</b>

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## NOTES TO STATEMENT OF ACTIVITIES

### 1. FINANCIAL AID

FAS financial aid to undergraduate, graduate, and continuing education students in the form of institutional scholarships and external grants totaled \$235.9 million in FY14. This is an increase of \$5.5 million or 2.4 percent above FY13. Harvard's Affordability Initiative has dramatically reduced the amount families contribute to the cost of attending Harvard College and alleviated the need for students to take out loans. Families with annual incomes below \$65,000 now pay nothing towards the cost of their students' attendance at the College.

Since 2007, Harvard's investment in financial aid has climbed by more than 75 percent, significantly outpacing increases in tuition. Close to 60 percent of Harvard College students receive financial aid, and our most current data reflect that families with students on scholarship pay an average of \$12,000 annually toward the cost of a Harvard education.

Financial aid presented in the table below excludes \$73.0 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY13 fellowships and awards were \$69.7 million.

*(in millions)*

	<u>FY 2014</u>	<u>FY 2013</u>
Undergraduate	\$ 170.2	\$ 165.6
Graduate	57.1	56.3
Continuing Education	<u>8.6</u>	<u>8.5</u>
Total Financial Aid	<u>\$ 235.9</u>	<u>\$ 230.4</u>

### 2. GRANTS AND CONTRACTS

FAS grants and contracts increased by 3.2 percent in FY14 to \$215.4 million, from \$208.7 million in FY13. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2014			FY 2013		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 33.8	\$ 16.5	\$ 50.3	\$ 35.7	\$ 18.5	\$ 54.2
National Science Foundation (NSF)	28.4	13.8	42.2	26.4	13.7	40.1
Department of Defense (DoD)	21.1	7.0	28.1	23.8	8.1	31.9
Other	21.7	9.2	30.9	20.4	8.3	28.7
Subtotal - Federally-Sponsored Research	105.0	46.5	151.5	106.3	48.6	154.9
Non-Federally Sponsored Research	35.5	5.9	41.4	26.8	5.1	31.9
Other Sponsored Awards	22.5	0.0	22.5	21.9	0.0	21.9
<b>Total Sponsored</b>	<b>\$ 163.0</b>	<b>\$ 52.4</b>	<b>\$ 215.4</b>	<b>\$ 155.0</b>	<b>\$ 53.7</b>	<b>\$ 208.7</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 FY14 and FY13. 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 is 44.3 percent in FY14, down from 45.7 percent in FY13. However, 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 2.3 percent, to \$624.5 million in FY14 from \$610.2 million in FY13. Endowment income represented 49 percent of the FAS's total revenues, consistent with FY13.

In addition to the annual endowment returns made available for operations, the FAS utilizes the endowment's capacity through decapitalizations and an assessment to support University administrative costs.

Combining all of the FAS endowment distributions, the aggregate FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 5.5 percent in FY14, consistent with FY13. FAS continues to utilize the endowment through decapitalizations as part of its strategy to fund current year costs, where possible and in accordance with donor terms, from restricted sources, allowing the FAS to free up

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unrestricted resources to support the multi-year House Renewal Program. Details of the endowment payout rate are shown in the table below:

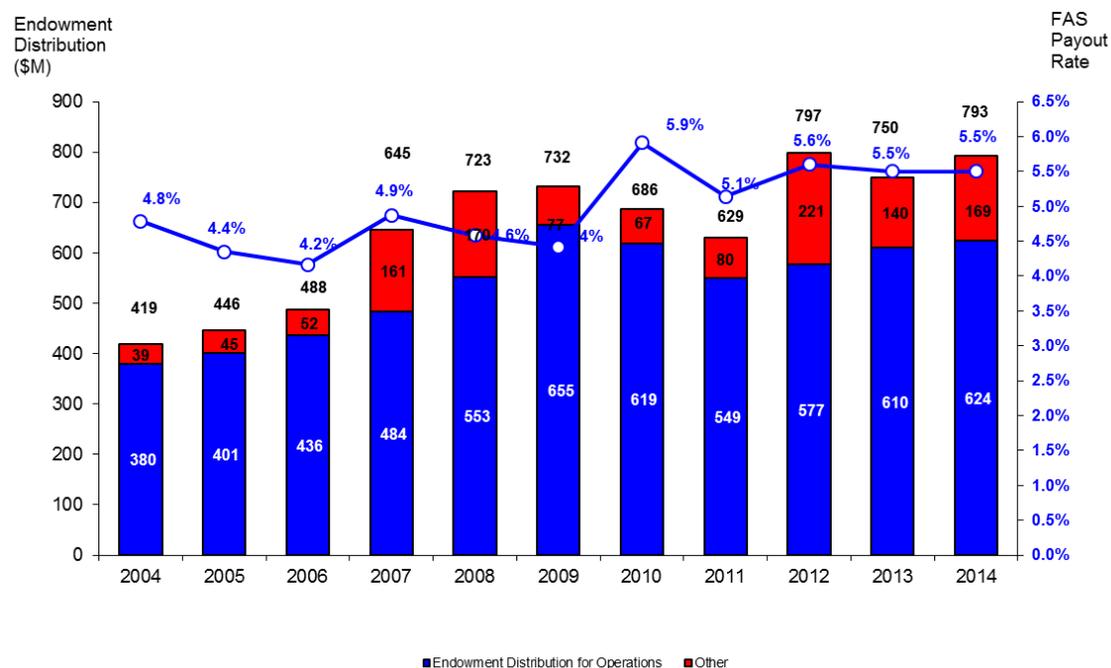
(in millions)	% of Market		% of Market	
	FY 2014	Value	FY 2013	Value
Endowment distribution	\$ 624.5	4.3%	\$ 610.2	4.5%
Distribution for Central Administrative Operations	69.6	0.5%	68.1	0.5%
Endowment decapitalizations	99.1	0.7%	71.5	0.5%
Total spending from endowment	\$ 793.2	5.5%	\$ 749.8	5.5%

Beginning-of-year endowment market value <sup>1</sup>	\$14,351.9	\$13,553.7
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<sup>1</sup> Excludes Endowment Pledges and Interests in Trusts Held by Others.

The chart below shows the FAS endowment distribution and payout rate since FY04.



#### 4. OTHER INVESTMENT INCOME

Other investment income includes interest received on reserves, as well as short-term fund interest income and special investment returns. The balance did not fluctuate from

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the FY13 level of \$2.7 million. Interest paid on fund balances was .07 percent in FY14, compared to .05 percent in FY13.

## 5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY14, the FAS received \$45.4 million in income transfers predominantly from the Offices of the President and Provost, including funding from the Harvard University Science and Engineering Committee (HUSEC). \$22.5 million was related to gifts and endowments held by the University but allocated to the FAS for support of professorships, financial aid and academic programs. Another \$11.8 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$11.1 million of net income transfers to and from FAS supported undergraduate and graduate aid, university-wide initiatives that are housed within the FAS, and a transfer to SIS (Student Information System) initiative (\$3.7 million). The decrease from FY13 support of \$60.6 million is due to a decrease in support for undergraduate financial aid, support from HUSEC for Graduate Fellowships and the elimination of revenue from the Harvard Inn, which has reverted back to the FAS for student swing space as part of the House Renewal Program. Further adding to the decrease is FAS's contribution to operating costs for the SIS system.

## 6. OTHER INCOME

FAS Other Income included the following in FY14 and FY13:

<i>(in millions)</i>	<b>FY 2014</b>	<b>FY 2013</b>
Sales of services	\$ 9.8	\$ 9.1
Rental income	8.0	8.4
Program and event income	6.0	4.7
Admissions application fees	4.9	5.0
Royalty income	4.0	2.6
Publication income	1.0	1.8
Miscellaneous income	12.9	12.2
<b>Other Income</b>	<b>\$ 46.6</b>	<b>\$ 43.8</b>

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 FY14, these costs represented 47.1 percent of total FAS expenses, consistent with the prior year. At \$593.5 million, this expense was 4.2 percent higher than FY13 spending of \$569.4 million.

The year-over-year increase for salaries and wages was 4.7 percent. The majority of this increase was linked to the annual merit increases for FAS faculty, exempt and union employees. The remainder of the increase was the result of other personnel transactions including modest position growth, filling of vacant positions, reclassifications and equity adjustments. The benefits component of the total increased by 2.7 percent. The fringe benefit rates decreased from FY13 to FY14 for faculty and union employees and remained unchanged for exempt staff; thus, the 2.7 percent increase in the cost of benefits is attributable to the increase in salary and wage base to which the rates were applied, as noted above.

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

FAS operations and maintenance expense increased by \$12.6 million, or by 8.9 percent. At the end of FY14, the FAS campus included 268 buildings comprising approximately of 10.1 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$48.5 million), custodial, security and groundskeeping services (\$50.4 million), repairs and maintenance (\$48.0 million) and rental fees (net of recoveries) (\$8.0 million). The increase is primarily due to hazardous waste remediation due to the House Renewal Program and construction projects in Athletics and the Museums. Rental of space costs also increased in the Division of Continuing Education for its expanded Distance Learning Program, space costs for the Mass Green High Performance Computing Center in Holyoke, MA and costs related to swing space for our undergraduate students.

## **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. All faculties within Harvard University are assessed proportionately based on size of operations. In FY14 the University Assessment increased by 4.2 percent over FY13 from \$40.1 million to \$41.8 million.

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

In FY14, the FAS transferred \$18.2 million to the University for Academic Program Support. Transfer for the Academic Initiatives Fund, \$10.9 million, 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 two-year trailing salary and wage expenses, exclusive of student salaries and salaries bearing overhead. Another \$7.3 million was transferred in FY14 by the FAS to the University for Academic Program Support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

In FY13, the FAS transferred \$10.5 million to the Academic Initiatives Fund, made a \$9.9 million contribution to HUSEC, and made a \$2.5 million contribution to edX, for a total of \$22.9 million.

## **11. OTHER EXPENSES**

Other expenses, which include travel, postage, insurance, telephone and miscellaneous expenses increased by 8.8 percent to \$66.6 million in FY14 from \$61.2 million in FY13. Major cost components in this category include: travel and events costs (\$29.5 million), telephone and photocopying costs (\$9.5 million), and insurance (\$7.1 million). The balance (\$20.5 million) is made up of a number of miscellaneous costs. Over half of this increase is due to costs related to the public launch and increased travel and events costs in Development related to the Capital Campaign. Athletics also saw a significant increase in travel costs due to post season competitions.

## **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 \$221.2 million in FY14. Total capital expenditures included \$24.5 million for capital equipment. The balance of \$196.7 million was invested in improvements to plant, the largest of which include: \$99.8 million of spending on House Renewal, \$21.7 million for renovations in the Sciences, \$13 million for the consolidation project of the Department of Anthropology in Tozzer, \$11.9 million at Dumbarton Oaks primarily for the renovation of a new fellows building, and \$15 million for major renovations planned in Athletics. The balance includes investments in existing plant, renewal projects in the College residential houses, capital renewal projects, and fit-out of space to support faculty recruitment. The most significant increase from FY13 spending occurred for the House Renewal Program.

Funding for capital spending in FY14 and FY13 came from the following sources:

<i>(in millions)</i>	<u>FY 2014</u>	<u>FY 2013</u>
Total capital spending	\$ (221.2)	\$ (139.1)
Less: debt proceeds	49.2	27.4
Less: construction gifts	32.8	3.7
Less: funds designated for Construction in Progress/Other	(\$11.5)	\$3.9
<b>Investment in plant and equipment, net</b>	<b><u>(\$150.7)</u></b>	<b><u>(\$104.1)</u></b>

In FY14 the FAS applied \$150.7 million in funding for capital projects; \$34.9 came from reserves held by the FAS Dean, Dumbarton Oaks, SEAS and the Division of Continuing Education, another \$88.5 million was made available through endowment distributions and decapitalizations, \$3.5 million was provided through gifts for construction and the balance was primarily for equipment funded through operating and sponsored funds.

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

Net transfers (to) / from the endowment represent changes in the endowment 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 FY14 the FAS took out an additional \$72.3 million from the endowment, representing the net of endowment capitalizations and decapitalizations. These proceeds were primarily used to fund unrestricted costs, and capital projects in order to free up resources for current and future House Renewal Program costs.

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

Other changes in net assets in FY14 include \$11.2 million from split interest agreements and \$6.5 in one-time transfers of funding from non-FAS units. These inflows were offset by a pay down of internal debt of \$32.7 million, comprised of \$10.6 in impairments as construction begins at Dunster House and other assets in the process of being renovated; and \$22.1 million in early payments on debt as the FAS continues to free up debt capacity through endowment decaps for future House Renewal Program costs.

## NOTES TO BALANCE SHEET

### 15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other GOA balances. On June 30<sup>th</sup> deposits increased from \$701.7 million to \$704.9 million or \$3.2 million from the prior fiscal year. The General Operating Account (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.

### 16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2014 and 2013 were as follows:

<i>(in millions)</i>	<u>FY 2014</u>	<u>FY 2013</u>
Student Notes Receivable:		
Perkins Loan Program	\$ 9.9	\$ 10.6
University Loan Program	31.9	30.8
Faculty and Staff	103.3	103.6
<b>Total Notes Receivable</b>	<b><u>\$ 145.1</u></b>	<b><u>\$ 145.0</u></b>

The Perkins Loan Program is a federal program in which loan funds are distributed by the government to universities which, in turn, provide loans to students. Faculty and staff notes receivable are primarily mortgages and educational loans. Mortgages include shared appreciation loans and loans that bear interest at the Applicable Federal Rate (AFR). In addition, certain mortgages bear interest at the current market rate, which may be subsidized for an initial period. Educational loans are primarily zero-interest loans.

## 17. FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION

Fixed assets are recorded at cost or fair market value on the date of acquisition, net of accumulated depreciation. Depreciation is computed using the straight-line method computed over the useful life of the asset. In addition to FY14 capital spending as noted in footnote 12, assets may increase or decrease through acquisitions, sales or impairments. In FY14 fixed assets increased due to the transfer of the Harvard Inn from Harvard Campus Services to the FAS. The FAS also recorded impairments due to the commencement of renovations at Dunster House; other impairments were recorded due to faculty lab renovations and other building renovation projects.

The table below summarizes FAS assets as of June 30, 2014 and 2013:

<i>(in millions)</i>	<u>FY 2014</u>	<u>FY 2013</u>
Research facilities	\$ 1,131.2	\$ 1,127.9
Classrooms and offices	458.8	454.7
Housing facilities	475.1	425.0
Libraries	205.7	205.5
Museums and assembly facilities	141.1	137.8
Athletic facilities	137.7	135.8
Service facilities	19.7	19.6
Capital leasehold improvements	73.6	51.4
Land	5.6	5.1
Construction in Progress	201.8	106.1
Equipment	385.0	369.7
Total fixed assets at cost	<u>3,235.3</u>	<u>3,038.6</u>
Less: accumulated depreciation	<u>(1,527.8)</u>	<u>(1,413.2)</u>
<b>Total fixed assets, net</b>	<b>\$ 1,707.5</b>	<b>\$ 1,625.4</b>

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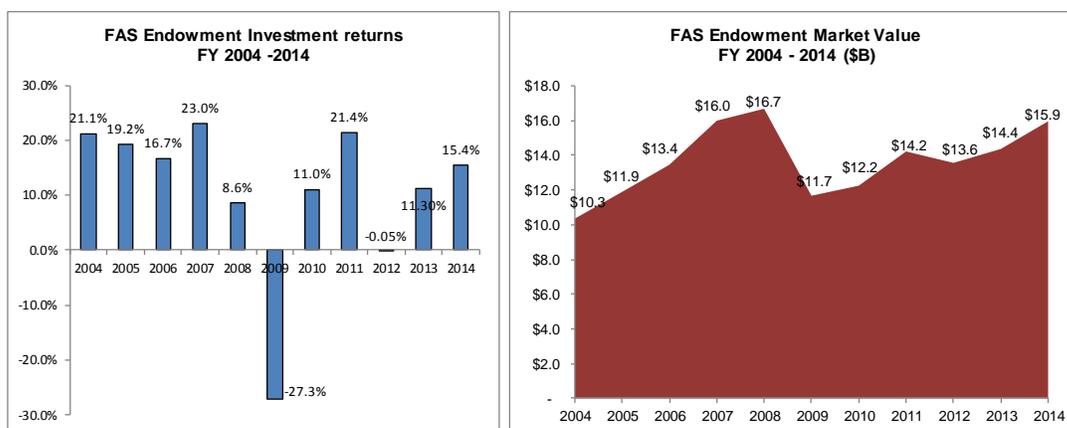
## 18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily in endowment, totaled \$15.8 billion at FY14 year end. The market value of these investments increased by \$1.5 billion, or 10.7 percent, from June 30, 2013. This change is primarily driven by the combination of market returns of 15.4 percent, and the funding of the annual FY14 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). In FY14 the FAS began contributing towards its investment in the Giant Magellan Telescope (GMT) which is included as a General Operating Account Investment.

The table below summarizes the FAS's long-term investments as of June 30, 2014 and 2013:

<i>(in millions)</i>	<b>FY 2014</b>		<b>FY 2013</b>	
Endowment investments	\$	15,839.2	\$	14,307.4
Gift fund investments		0.5		5.2
General Operating Account investments		4.2		-
<b>Total Long term investments</b>	<b>\$</b>	<b>15,843.9</b>	<b>\$</b>	<b>14,312.6</b>

The charts below summarize the FAS endowment market value over the past ten years from FY04 through FY14:



(1) The 6/30/14 FAS endowment market value of \$15.9 billion includes endowment investments of \$15.8 billion and .1 billion of undistributed investment earnings (this is exclusive of endowment pledges and interests in trusts held by others) when these two are added the FAS endowment market value on 6/30/14 is \$16.3billion.

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## 19. INTERNAL DEBT OBLIGATIONS

At the end of FY14, the FAS's outstanding debt was \$869.4 million, \$29.6 million (3.3 percent) less than FY13'.

<i>(in millions)</i>	<u>FY 2014</u>	<u>FY 2013</u>
Long-Term Debt	\$ 766.1	\$ 795.4
Faculty Loans	103.3	103.6
<b>Total Debt and Notes Payable</b>	<b>\$ 869.4</b>	<b>\$ 899.0</b>

Changes in long-term debt reflect new borrowings, principal payments and pay down of debt on retired plant assets. New borrowings were for campus renewal and construction, including life safety projects in the College's residential houses, and laboratory fit-outs and equipment in several of the science buildings for new faculty.

In addition to scheduled annual principal payments, the FAS paid down debt of \$10.7 million in FY14 on assets which have been retired due to the renovation of Dunster House and another \$22.1 million through endowment decapitalizations as part of the House Renewal funding plan. In FY13 the FAS paid down debt of \$4.9 million on assets which have been retired due to the renovation of Old Quincy House, now Stone Hall, and Leverett's McKinlock Hall.

## 20. GOVERNMENT LOAN ADVANCES

Government student loans are funded principally with federal advances to the University under the Perkins Loan Program and other programs.

## 21. NET ASSETS

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 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, 2014

	Fiscal Year 2014		
	Total - All Funds	Adjustments <sup>(1)</sup>	Modified GAAP
<b>Revenues</b>			
Tuition and Fees	\$ 477.7		\$ 477.7
<i>Less: Financial Aid</i>	<i>(235.9)</i>		<i>(235.9)</i>
Net Tuition and Fees	241.8	-	241.8
Grants and Contracts - direct	163.0		163.0
Grants and Contracts - indirect	52.4		52.4
Endowment Distribution	624.5		624.5
Other Investment Income	2.7		2.7
Current-Use Gifts	99.4		99.4
Transfers from University - Academic Programs	45.4		45.4
Other Income	46.6		46.6
Income Reclasses		(18.2)	(18.2)
<b>Total Revenues</b>	<b>1,275.8</b>	<b>(18.2)</b>	<b>1,257.6</b>
<b>Expenses</b>			
Salaries and Wages	464.9		464.9
Employee Benefits	128.6		128.6
Fellowships and Awards	73.0		73.0
Supplies, Materials and Equipment	69.0		69.0
Operations and Maintenance of Plant	154.9		154.9
Principal and Interest on Internal Debt	92.3	(49.5)	42.8
Depreciation Expense		120.6	120.6
Transfers to University - University Assessment	41.8		41.8
Transfers to University - Academic Programs	18.2		18.2
Services Purchased	150.1		150.1
Other Expenses	66.6		66.6
Expense Reclasses		(18.2)	(18.2)
<b>Total Expenses</b>	<b>1,259.4</b>	<b>52.9</b>	<b>1,312.3</b>
<b>Net Operating Results<sup>(2)</sup></b>	<b>16.4</b>	<b>(71.1)</b>	<b>\$ (54.7)</b>
Depreciation		120.6	120.6
<b>Cash Flow Provided by (Used in) Operating Activities</b>		<b>49.5</b>	<b>65.9</b>
Investment in Plant and Equipment, net	(150.7)	150.7	-
Capital Acquisitions and Expenditures		(221.2)	(221.2)
<b>Cash Flow Provided By (Used in) Investing Activities</b>		<b>(70.9)</b>	<b>(221.2)</b>
<b>Principal Payments (Internal Loans)</b>			<b>(49.9)</b>
<b>Financing Activities</b>			
Net Transfer (to)/from Endowment	72.3		72.3
New Debt (Internal Loans)		49.2	49.2
Principal Pre-payments (Internal Loans)		(32.7)	(32.7)
Construction Gifts Applied		32.8	32.8
Split Interest Agreements and Other Changes in Net Assets	(15.0)	21.1	6.1
<b>Cash Flow Provided By (Used in) Financing Activities</b>		<b>70.4</b>	<b>127.7</b>
<b>Net Change in Fiscal Year Activity</b>	<b>\$ (77.0)</b>	<b>-</b>	<b>\$ (77.0)</b>

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

(2) The University includes the loss on disposal of fixed assets in its operating results which are not included on the FAS Modified GAAP view. As indicated in Footnote 17, FAS recorded impairments due to various renovations and projects across campus. Losses totaled \$26.8m in FY14 on fixed asset disposals.

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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 6,200 restricted endowment funds and over 2,200 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.

**General Operating Account (GOA):**

The General Operating Account (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. The GOA accepts, manages, and pays interest on deposits made by University departments; invests surplus working capital; makes loans; and arranges external financing for major capital projects. It is used to manage, control, and execute all University financial transactions, except for those related to investment activities conducted by HMC.