

# APPENDIX

## FACULTY OF ARTS AND SCIENCES MANAGERIAL FINANCIAL REPORT

FISCAL YEAR 2012

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.**

(in millions)

**Faculty of Arts and Sciences**  
**Consolidated**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2012**

	note	Fiscal Year 2012			Fiscal Year 2011 <sup>1</sup>		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>							
Tuition and Fees		\$ 443.1	-	\$ 443.1	\$ 419.0	-	\$ 419.0
<i>Less: Financial Aid</i>	(1)	(88.9)	(137.2)	(226.1)	(95.1)	(117.5)	(212.6)
Net Tuition and Fees		354.2	(137.2)	217.0	323.9	(117.5)	206.4
Grants and Contracts - direct	(2)	-	160.1	160.1	-	153.0	153.0
Grants and Contracts - indirect		54.8	-	54.8	52.1	-	52.1
Endowment Distribution	(3)	197.4	379.6	577.0	188.4	360.8	549.2
Other Investment Income	(4)	1.7	2.6	4.3	1.3	1.1	2.4
Current-Use Gifts		32.8	46.7	79.5	31.0	35.9	66.9
Transfers from University - Academic Programs	(5)	34.2	31.2	65.4	33.6	24.7	58.3
Other Income	(6)	44.9	0.4	45.3	39.0	0.2	39.2
Total Revenues (a)		720.0	483.4	1,203.4	669.3	458.2	1,127.5
<b>Expenses</b>							
Salaries and Wages	(7)	242.2	219.7	461.9	240.5	201.3	441.8
Employee Benefits		72.4	59.4	131.8	68.9	52.8	121.7
Fellowships and Awards		15.4	51.8	67.2	14.7	46.4	61.1
Supplies, Materials and Equipment		25.3	39.4	64.7	15.1	46.4	61.4
Operations and Maintenance of Plant	(8)	98.1	37.6	135.7	96.1	37.2	133.3
Principal and Interest on Internal Debt		97.9	0.1	98.0	98.1	1.2	99.3
Transfers to University - University Assessment	(9)	39.2	-	39.2	34.3	-	34.3
Transfers to University - Academic Programs	(10)	22.4	0.6	23.0	16.8	0.6	17.4
Services Purchased		43.0	46.3	89.3	38.0	39.2	77.2
Other Expenses	(11)	23.8	39.0	62.8	29.3	31.2	60.5
Total Expenses (b)		679.7	493.9	1,173.6	651.8	456.2	1,108.0
<b>Net Operating Results</b>		40.3	(10.5)	29.8	17.5	2.0	19.5
<b>Investment in Plant and Equipment, net (c)</b>	(12)	(83.5)	(42.9)	(126.4)	(48.1)	(10.8)	(58.9)
<b>Net Transfer (to)/from Endowment (d)</b>	(13)	(5.3)	115.0	109.7	0.4	13.4	13.8
<b>Other Changes in Net Assets (e)</b>	(14)	13.6	(47.2)	(33.6)	(1.2)	3.6	2.4
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>		<b>\$ (34.9)</b>	<b>\$ 14.4</b>	<b>\$ (20.5)</b>	<b>(31.4)</b>	<b>\$ 8.2</b>	<b>(23.2)</b>

<sup>1</sup>Certain FY2011 numbers have been restated for comparative purposes

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(in millions)

**Faculty of Arts and Sciences**  
**Core**  
**Statement of Activity**  
**Fiscal Year Ending June 30, 2012**

	Fiscal Year 2012			Fiscal Year 2011 <sup>1</sup>		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
<b>Revenues</b>						
Tuition and Fees	\$ 365.7	-	\$ 365.7	\$ 348.3	-	\$ 348.3
<i>Less: Financial Aid</i>	(82.8)	(128.7)	(211.5)	(88.9)	(109.6)	(198.5)
Net Tuition and Fees	282.9	(128.7)	154.2	259.4	(109.6)	149.8
Grants and Contracts - direct	-	124.8	124.8	-	118.3	118.3
Grants and Contracts - indirect	38.7	-	38.7	36.2	-	36.2
Endowment Distribution	165.3	272.8	438.1	157.8	259.7	417.5
Other Investment Income	0.5	1.3	1.8	0.2	0.5	0.7
Current-Use Gifts	32.4	32.9	65.3	30.9	25.0	55.9
Transfers from University - Academic Programs	20.8	29.7	50.5	20.8	23.2	44.0
Other Income	11.6	0.8	12.4	6.2	2.8	9.0
<b>Total Revenues (a)</b>	<b>552.2</b>	<b>333.6</b>	<b>885.8</b>	<b>511.5</b>	<b>320.0</b>	<b>831.5</b>
<b>Expenses</b>						
Salaries and Wages	170.4	159.2	329.6	174.3	141.3	315.6
Employee Benefits	50.1	43.3	93.4	49.1	36.2	85.4
Fellowships and Awards	14.8	47.3	62.1	14.3	42.0	56.3
Supplies, Materials and Equipment	15.2	19.6	34.8	6.5	23.2	29.7
Operations and Maintenance of Plant	78.3	25.4	103.7	77.6	26.8	104.4
Principal and Interest on Internal Debt	92.6	0.1	92.7	94.3	0.1	94.4
Transfers to University - University Assessment	30.0	-	30.0	26.3	-	26.3
Transfers to University - Academic Programs	18.9	0.6	19.5	14.0	0.6	14.6
Services Purchased	25.9	33.0	58.9	22.8	28.3	51.1
Other Expenses	7.7	25.7	33.4	14.2	18.6	32.8
<b>Total Expenses (b)</b>	<b>503.9</b>	<b>354.2</b>	<b>858.1</b>	<b>493.5</b>	<b>317.1</b>	<b>810.6</b>
<b>Net Operating Results</b>	<b>48.3</b>	<b>(20.6)</b>	<b>27.7</b>	<b>18.0</b>	<b>2.9</b>	<b>20.9</b>
<b>Investment in Plant and Equipment, net (c)</b>	<b>(71.3)</b>	<b>(35.5)</b>	<b>(106.8)</b>	<b>(33.4)</b>	<b>(4.9)</b>	<b>(38.3)</b>
<b>Net Transfer (to)/from Endowment (d)</b>	<b>(0.4)</b>	<b>131.9</b>	<b>131.5</b>	<b>0.4</b>	<b>(2.0)</b>	<b>(1.6)</b>
<b>Other Changes in Net Assets (e)</b>	<b>13.7</b>	<b>(47.8)</b>	<b>(34.1)</b>	<b>(1.2)</b>	<b>2.9</b>	<b>1.7</b>
<b>Net Change in Fiscal Year Activity (a-b+c+d+e)</b>	<b>\$ (9.7)</b>	<b>\$ 28.0</b>	<b>\$ 18.3</b>	<b>(16.2)</b>	<b>(1.1)</b>	<b>(17.3)</b>

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

(in millions)

	note	June 30	
		2012	2011
<b>ASSETS:</b>			
Deposits with the University.....	(15)	\$ 612.0	\$ 626.8
Receivables			
Student Receivables .....		2.7	3.8
Other Receivables <sup>1</sup> .....		25.6	7.7
Prepayments and deferred charges.....		17.6	12.4
Notes Receivable .....	(16)	141.6	138.4
Pledges Receivable .....		271.3	210.1
Fixed assets, net of accumulated depreciation .....	(17)	1,615.6	1,647.0
Interests in perpetual trusts held by others .....		82.5	80.8
Long-term investments (primarily endowment).....	(18)	13,512.9	14,147.7
<b>TOTAL ASSETS</b>		<b>16,281.8</b>	<b>16,874.7</b>
<b>LIABILITIES:</b>			
Accrued Expenses .....		9.2	9.6
Deferred Revenue and other liabilities <sup>1</sup> .....		53.5	47.1
Internal Debt Obligations .....	(19)	922.8	1,013.5
Government loan advances .....	(20)	9.3	9.9
<b>TOTAL LIABILITIES</b>		<b>994.8</b>	<b>1,080.1</b>
<b>TOTAL NET ASSETS</b>	(21)	<b>15,287.0</b>	<b>15,794.7</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b>\$ 16,281.8</b>	<b>\$ 16,874.7</b>

<sup>1</sup>FY2011 has been adjusted for comparative purposes

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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 \$226.1 million in FY12. This is an increase of \$13.5 million or 6.4 percent above FY11. 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 70 percent, significantly outpacing increases in tuition. More than 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 \$11,500 annually toward the cost of a Harvard education.

While FAS spending on undergraduate financial aid grew overall in FY12, the composition shifted from unrestricted to restricted funds. This shift was a result of decapitalizing certain endowment funds to support the current class of undergraduates from restricted sources. Financial aid presented in the table below excludes \$67.2 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity.

<i>(in millions)</i>	FY 2012			FY 2011		
	Unrestricted	Restricted <sup>(1)</sup>	Total	Unrestricted	Restricted <sup>(1)</sup>	Total
Undergraduate	\$ 58.0	\$ 106.2	\$ 164.2	\$ 64.5	\$ 91.9	\$ 156.4
Graduate	25.0	28.5	53.5	24.6	23.9	48.5
Continuing Education	5.9	2.5	8.4	6.0	1.7	7.7
Total Financial Aid	<b>\$ 88.9</b>	<b>\$ 137.2</b>	<b>\$ 226.1</b>	<b>\$ 95.1</b>	<b>\$ 117.5</b>	<b>\$ 212.6</b>

(1) Includes gifts, endowment income, and sponsored support

### 2. GRANTS AND CONTRACTS

FAS grants and contracts increased by 5 percent in FY12 to \$214.9 million, from \$205.1 million in FY11. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2012			FY 2011		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 36.4	\$ 19.0	\$ 55.4	\$ 36.2	\$ 19.1	\$ 55.3
National Science Foundation (NSF)	29.4	14.2	43.6	29.3	13.7	43.0
Department of Defense (DoD)	24.5	8.4	32.9	17.9	7.0	24.9
Other	20.1	7.9	28.0	19.5	7.6	27.1
Subtotal - Federally-Sponsored Research	110.4	49.5	159.9	102.9	47.4	150.3
Non-Federally Sponsored Research	28.7	5.3	34.0	30.4	4.7	35.1
Other Sponsored Awards	21.0	0.0	21.0	19.7	0.0	19.7
<b>Total Sponsored</b>	<b>\$ 160.1</b>	<b>\$ 54.8</b>	<b>\$ 214.9</b>	<b>\$ 153.0</b>	<b>\$ 52.1</b>	<b>\$ 205.1</b>
<i>Effective Indirect cost rate</i>			<b>34.2%</b>			<b>34.1%</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., lab reagents and research materials). Indirect cost recoveries help to pay for related costs such as facilities, libraries and research administration. Indirect costs are ordinarily recovered at a predetermined rate negotiated with the federal government and other sponsors. The negotiated federal rate for the FAS was 69 percent for organized on-campus research in FY12 and 68 percent in FY11. Non-federal sponsors' rates vary. The blended actual or "effective indirect rate" for the FAS, which reflects both the mix of federal and non-federal support as well as the types of activities and expenditures underwritten in federal grants and contracts (only some of which is eligible for the full 69 percent recovery), was 34.2 percent in FY12, an increase from 34.1 percent in FY11.

### 3. ENDOWMENT DISTRIBUTION

FAS endowment returns made available for operations increased by 5 percent, to \$577.0 million in FY12 from \$549.2 million in FY11. This was the first increase in endowment returns made available for operations since the economic downturn's impact on the endowment's market value in FY09. Endowment income represented 48 percent and 49 percent of the FAS's total revenues in FY12 and FY11, respectively, compared to 54 percent prior to the downturn.

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 5.6 percent in FY12, up from 5.1 percent in FY11. The increase in FY12 of the endowment payout rate resulted from endowment decapitalizations of \$150.9 million in FY12 compared to \$20.5 million in FY11. These decapitalizations are part of the FAS's strategy to fund current year costs, where possible and in accordance with donor terms,

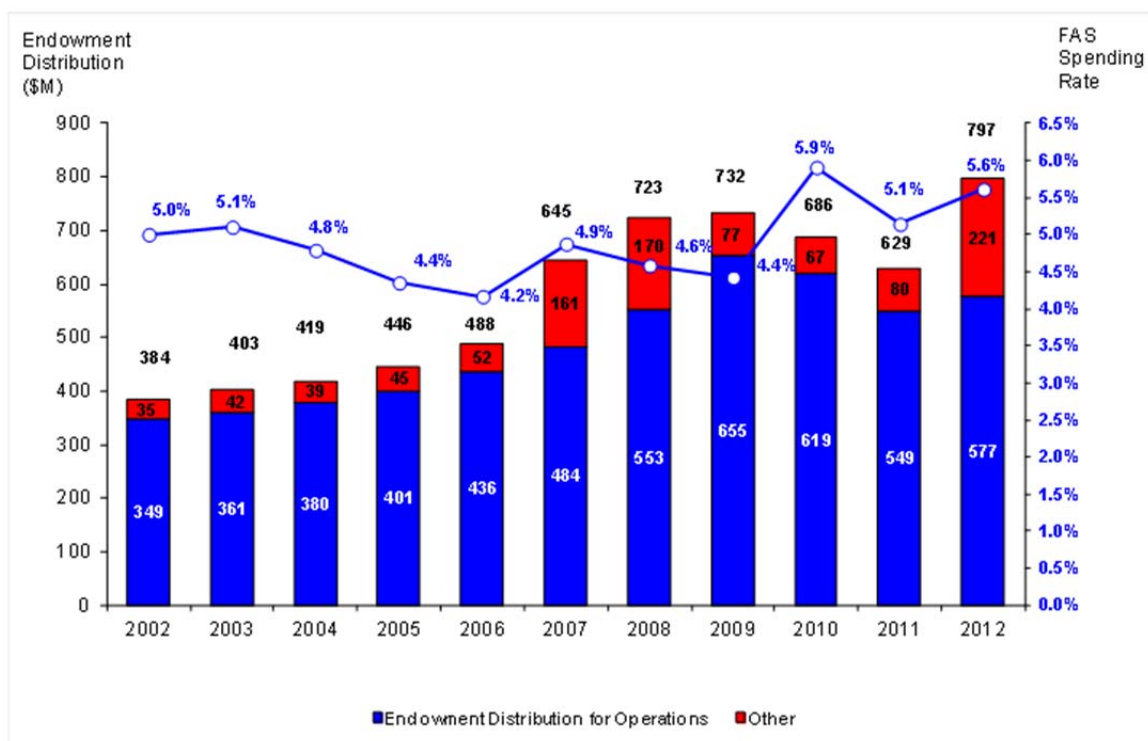
from restricted sources, allowing the FAS to free up unrestricted resources to support the multi-year House Renewal Program. Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market		% of Market	
	FY 2012	Value	FY 2011	Value
Endowment distribution	\$ 577.0	4.1%	\$ 549.2	4.5%
Decapitalization for central administrative overhead	69.6	0.5%	59.8	0.5%
Endowment decapitalizations	150.9	1.1%	20.5	0.2%
Total spending from endowment	\$ 797.5	5.6%	\$ 629.5	5.1%

Beginning-of-year endowment market value<sup>1</sup>                      \$14,212.0                      \$12,241.0

<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 FY02.



#### 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 increase of \$1.9 million in this

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category to \$4.3 million in FY12 from \$2.4 million in FY11 was driven by an increase in the rate of interest paid on fund balances, from 0% in FY11 to .03% in FY12.

## 5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY12, the FAS received \$65.4 million in income transfers predominantly from the Offices of the President and Provost, including funding from the Harvard University Science and Engineering Committee (HUSEC). \$28.8 million was related to gifts and endowments held by the University but allocated to the FAS, including \$8.8 million designated for House Renewal as well as support in the areas of: professorships, financial aid and academic program support; another \$11.9 million of University support was for the Harvard College Library, which benefits the FAS and the University; and \$24.7 million of income transfers were to support the FAS (including undergraduate and graduate aid) and University-wide initiatives that are housed within the FAS.

## 6. OTHER INCOME

FAS Other Income included the following in FY12 and FY11:

<i>(in millions)</i>	<u>FY 2012</u>	<u>FY 2011</u>
Rental income	\$ 7.5	\$ 6.5
Sales of services	10.8	7.5
Admissions application fees	5.0	5.0
Program and event income	3.9	3.8
Royalty income	2.8	2.0
Publication income	2.4	2.1
Miscellaneous income	12.9	12.3
<b>Other Income</b>	<b>\$ 45.3</b>	<b>\$ 39.2</b>

Miscellaneous income includes library fees, other fines and fees, interest on mortgages and commissions.



## **7. SALARIES, WAGES AND BENEFITS**

Salaries, wages and benefits are the largest component of the FAS's expenses. In FY12, these costs represented 51 percent of total FAS expenses, totaling \$593.7 million. This figure is 5.4 percent higher than FY11 spending of \$563.5 million. The year over year increase reflects an increase of salaries from the previous year by 4.5 percent and an increase of fringe benefit costs of 8.3 percent.

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

FAS operations and maintenance expense increased by \$2.4 million, or by 1.8% percent. At the end of FY12, the FAS campus included 269 buildings comprising approximately of 10.1 million gross square feet. Operations and maintenance of plant includes the cost of utilities (\$44.5M), custodial, security and grounds keeping services (\$45.3M), repairs and maintenance (\$40.5M) and rental fees (net of recoveries) (\$5.4M).

## **9. TRANSFERS TO UNIVERSITY - UNIVERSITY ASSESSMENT**

The University Assessment helps to pay for services provided to the FAS by the University, including legal services, general accounting, and maintenance of PeopleSoft and our other enterprise IT systems. All faculties within Harvard University are assessed proportionately based on size of operations. In FY12 the University Assessment increased by 14% over FY11 from \$34.3 million to \$39.2 million.

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

In FY12, the FAS transferred \$23.0 million to the University for academic program support. Almost half of the amount transferred, \$10.2 million, was 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 two-year trailing salary and wage expenses, exclusive of student salaries and salaries bearing overhead. Another \$10.3 million was transferred in FY12 by the FAS to the University for academic program support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC). In FY12 FAS contributed \$2.5 million to edX, a newly created collaboration between Harvard and MIT in interactive online education.

In FY11, the FAS transferred \$9.9 million to the Academic Initiatives Fund, and made a \$7.5 million contribution to HUSEC, for a total of \$17.4 million.

## 11. OTHER EXPENSES

Other expenses, which include travel, postage, insurance, telephone and miscellaneous expenses increased by 3.8% to \$62.8 million in FY12 from \$60.5 million in FY11. Major cost components in this category include: travel and entertainment costs (\$27.0 million), and telephone and photocopying costs (\$10.1 million), and insurance (\$7.2 million). The balance (\$18.5 million) is made up of a number of miscellaneous costs.

## 12. INVESTMENT IN PLANT AND EQUIPMENT, NET

Investment in plant and equipment, net, represents the amount invested by the FAS in current and future year capital projects. FAS capital spending for buildings and equipment totaled \$87.7 million in FY12. Total capital expenditures included \$28.2 million for capital equipment. The balance of \$59.5 was invested in improvements to plant, the largest of which include: \$8.1 million of spending on House Renewal, \$7.3 million for the final lab renovations in Sherman Fairchild for Stem Cell and Regenerative Biology, \$5.6 million for the Paine Hall Music Building HVAC Project, \$3.9 for the MCZ Collections move to the Northwest Lab and \$3.7 for the Helium Liquifier Project. The balance includes investments in existing plant, including renewal and renovations of athletic facilities, renewal projects in the College residential houses, capital renewal projects, and fit-out of space to support faculty recruitment.

Funding for capital spending in FY12 and FY11 came from the following sources:

<i>(in millions)</i>	<u>FY 2012</u>	<u>FY 2011</u>
Total capital spending	\$ (87.7)	\$ (130.5)
Less: debt proceeds	5.7	16.2
Less: construction gifts	1.7	0.1
Less: funds designated for Construction in Progress/Other	(\$46.1)	\$55.3
<b>Investment in plant and equipment, net</b>	<b>(\$126.4)</b>	<b>(\$58.9)</b>

Included in the Investment in plant and equipment, net category is funding of \$8.3 million from gifts designated for House Renewal that flow through the President's Office. The Funds designated for Construction in Progress/Other category also includes some funds received from the University, specifically, \$.3 million for the McCurdy Track Parking Project. In FY11, the FAS received \$3.4 million from the University for Wyss Institute lab renovations, Pusey Library renovations and other projects.

Funds designated for Construction in Progress/Other occur when funding of projects exceed the actual capital costs incurred to date, and the funds are set aside for future

construction costs on projects approved by the FAS and the Corporation. In FY12, the FAS transferred \$55.9 million for House Renewal the net of the unspent funding (\$47.8 million) is carried forward and captured in this category. In FY11, prior year funding was drawn upon for the Sherman Fairchild renovations, and other projects funded prior to spending.

### **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 FY12 the FAS took out an additional \$109.7 million from the endowment, representing the net of endowment capitalizations and decapitalizations. These proceeds were used to fund unrestricted costs, capital projects, and paydown of internal debt 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 FY12 include \$7.4 million from split interest agreements. Also included in this category is a one-time bequest of \$10.2 million which was spent on House Renewal. These inflows were offset by a paydown of internal debt of \$49.9 million, enabled by endowment decapitalizations, following a similar paydown of \$13.2 million in FY11. These payments for early retirement of internal debt are part of the FAS's plan to free up debt capacity for future use in funding the multi-year House Renewal program.

## NOTES TO BALANCE SHEET

### 15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other GOA balances. The decrease from \$626.8 million to \$612.0 million or \$14.8 million in FY12 relates to the use of reserve funds to fund capital projects and a reduction in the amount of interest and dividends held at June 30<sup>th</sup> to fund the FY13 endowment distribution.

### 16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2012 and 2011 were as follows:

<i>(in millions)</i>	<b>FY 2012</b>	<b>FY 2011</b>
Student Notes Receivable:		
Perkins Loan Program	\$ 11.2	\$ 11.9
University Loan Program	28.7	28.1
Faculty and Staff	101.7	98.4
<b>Total Notes Receivable</b>	<b>\$ 141.6</b>	<b>\$ 138.4</b>

The Perkins Loan Program is a federal program where 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.

The table below summarizes FAS assets as of June 30, 2012 and 2011:

<i>(in millions)</i>	<b>FY 2012</b>		<b>FY 2011</b>	
Research facilities	\$	1,103.6	\$	1,034.2
Classrooms and offices		443.4		437.5
Housing facilities		436.7		431.9
Libraries		204.0		196.3
Museums and assembly facilities		134.9		134.1
Athletic facilities		131.3		129.6
Service facilities		15.3		12.8
Capital leasehold improvements		50.5		47.2
Land		4.8		4.7
Construction in Progress		49.7		86.5
Equipment		340.3		312.0
Total fixed assets at cost		2,914.5		2,826.8
Less: accumulated depreciation		(1,298.9)		(1,179.8)
<b>Total fixed assets, net</b>	<b>\$</b>	<b>1,615.6</b>	<b>\$</b>	<b>1,647.0</b>

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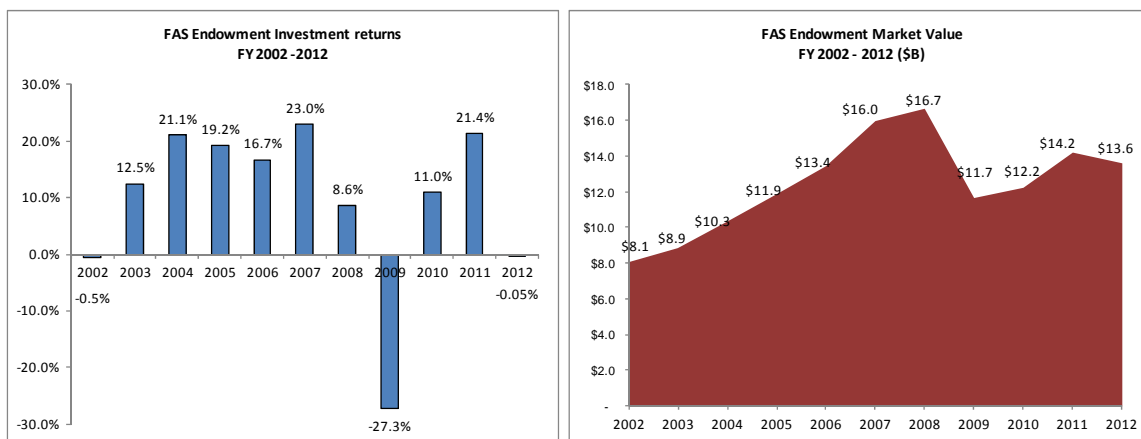
## 18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily in endowment, totaled \$13.5 billion at FY12 year end. The market value of these investments decreased by \$0.6 billion, or 4.5 percent, from June 30, 2011. This change is primarily driven by the combination of essentially flat year over year market returns, and the funding of the annual FY12 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).

The table below summarizes the FAS's long-term investments as of June 30, 2012 and 2011:

<i>(in millions)</i>	<b>FY 2012</b>	<b>FY 2011</b>
Endowment investments	\$ 13,512.4	\$ 14,147.0
Gift fund investments	0.5	0.5
General Operating Account investments	-	0.2
<b>Total Long term investments</b>	<b>\$ 13,512.9</b>	<b>\$ 14,147.7</b>

The charts below summarize the FAS endowment market value over the past ten years from FY02 through FY12:



<sup>(1)</sup> The 6/30/12 FAS endowment market value of \$13.6 billion includes endowment investments of \$13.5 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 6/30/12 is \$13.7 billion.

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## 19. INTERNAL DEBT OBLIGATIONS

At the end of FY12, the FAS's outstanding debt was \$922.8 million, \$90.7 million (9 percent) less than FY11.

<i>(in millions)</i>	<b>FY 2012</b>	<b>FY 2011</b>
Long-Term Debt	\$ 821.1	\$ 915.2
Faculty Loans	101.7	98.3
<b>Total Debt and Notes Payable</b>	<b>\$ 922.8</b>	<b>\$ 1,013.5</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 makes early principal payments when possible. In FY12 FAS prepaid principal of \$49.9 million and in FY11 the FAS prepaid principal of \$13.2 million. Making early principal payments, along with equity funding capital projects, has allowed FAS to lower the amount of its long-term debt and set aside future debt capacity for the House Renewal Program.

## 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 manages all transactions except those related to investment activities conducted by the Harvard Management Company.

## **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 approximately 5,950 restricted endowment funds and over 2,100 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.