

APPENDIX

FACULTY OF ARTS AND SCIENCES MANAGERIAL FINANCIAL REPORT

FISCAL YEAR 2011

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, 2011

	note	Fiscal Year 2011			Fiscal Year 2010		
		Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues							
Tuition and Fees		\$ 419.0	-	\$ 419.0	\$ 411.4	-	\$ 411.4
Less: Financial Aid	(1)	(95.1)	(117.5)	(212.6)	(86.6)	(117.2)	(203.8)
Net Tuition and Fees		323.9	(117.5)	206.4	324.8	(117.2)	207.6
Grants and Contracts - direct	(2)	-	153.0	153.0	-	145.1	145.1
Grants and Contracts - indirect		52.1	-	52.1	48.3	-	48.3
Endowment Distribution ¹	(3)	188.4	360.8	549.2	213.1	406.0	619.1
Other Investment Income	(4)	1.3	1.1	2.4	3.8	3.9	7.7
Current-Use Gifts		31.0	35.9	66.9	28.4	35.0	63.4
Transfers from University - Academic Programs	(5)	33.6	24.7	58.3	31.4	25.5	56.9
Other Income	(6)	39.0	0.2	39.2	38.0	0.4	38.4
Total Revenues (a)		669.3	458.2	1,127.5	687.8	498.7	1,186.5
Expenses							
Salaries and Wages	(7)	242.2	199.6	441.8	232.1	203.0	435.1
Employee Benefits		69.4	52.3	121.7	62.4	50.3	112.7
Fellowships and Awards		14.9	46.2	61.1	12.3	47.8	60.1
Supplies, Materials and Equipment		17.3	44.1	61.4	26.4	34.9	61.3
Operations and Maintenance of Plant	(8)	96.1	37.2	133.3	90.6	36.7	127.3
Principal and Interest on Internal Debt		98.1	1.2	99.3	96.9	0.1	97.0
Transfers to University - University Assessment	(9)	34.3	-	34.3	31.7	-	31.7
Transfers to University - Academic Programs	(10)	16.8	0.6	17.4	9.5	0.2	9.7
Services Purchased		38.6	38.6	77.2	30.5	36.2	66.7
Other Expenses	(11)	24.1	36.4	60.5	21.7	37.4	59.1
Total Expenses (b)		651.8	456.2	1,108.0	614.1	446.6	1,060.7
Net Operating Results		17.5	2.0	19.5	73.7	52.1	125.8
Investment in Plant and Equipment, net (c)	(12)	(48.1)	(10.8)	(58.9)	(44.1)	(19.6)	(63.7)
Net Transfer (to)/from Endowment¹ (d)	(13)	0.4	13.4	13.8	2.3	(0.5)	1.8
Other Changes in Net Assets (e)	(14)	(1.2)	3.6	2.4	(19.9)	0.5	(19.4)
Net Change in Fiscal Year Activity (a-b+c+d+e)		\$ (31.4)	\$ 8.2	\$ (23.2)	\$ 12.0	\$ 32.5	\$ 44.5

¹ FY2010 Endowment Distribution and Net Transfer (to)/from Endowment have been restated to conform to accounting practice adopted in FY2011

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(in millions)

Faculty of Arts and Sciences
Core
Statement of Activity
Fiscal Year Ending June 30, 2011

	Fiscal Year 2011			Fiscal Year 2010		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 348.3	-	\$ 348.3	\$ 338.1	-	\$ 338.1
<i>Less: Financial Aid</i>	(88.9)	(109.6)	(198.5)	(79.1)	(108.8)	(187.9)
Net Tuition and Fees	259.4	(109.6)	149.8	259.0	(108.8)	150.2
Grants and Contracts - direct	-	118.3	118.3	-	112.2	112.2
Grants and Contracts - indirect	36.2	-	36.2	33.6	-	33.6
Endowment Distribution ¹	157.8	259.7	417.5	178.3	293.0	471.3
Other Investment Income	0.2	0.5	0.7	1.8	2.3	4.1
Current-Use Gifts	30.9	25.0	55.9	28.0	24.2	52.2
Transfers from University - Academic Programs	20.8	23.2	44.0	17.1	22.1	39.2
Other Income	6.2	2.8	9.0	5.8	0.4	6.2
Total Revenues (a)	511.5	320.0	831.5	523.6	345.4	869.0
Expenses						
Salaries and Wages	176.0	139.6	315.6	169.8	142.6	312.4
Employee Benefits	49.6	35.8	85.4	45.2	33.9	79.1
Fellowships and Awards	14.5	41.8	56.3	11.8	43.4	55.2
Supplies, Materials and Equipment	8.8	20.9	29.7	15.6	15.3	30.9
Operations and Maintenance of Plant	79.7	24.7	104.4	72.4	26.1	98.5
Principal and Interest on Internal Debt	94.3	0.1	94.4	92.9	0.1	93.0
Transfers to University - University Assessment	26.3	-	26.3	24.2	-	24.2
Transfers to University - Academic Programs	14.0	0.6	14.6	6.9	0.2	7.1
Services Purchased	23.4	27.7	51.1	15.1	27.2	42.3
Other Expenses	6.9	25.9	32.8	9.2	27.1	36.3
Total Expenses (b)	493.5	317.1	810.6	463.1	315.9	779.0
Net Operating Results	18.0	2.9	20.9	60.5	29.5	90.0
Investment in Plant and Equipment, net (c)	(33.4)	(4.9)	(38.3)	(39.3)	(11.4)	(50.7)
Net Transfer (to)/from Endowment¹ (d)	0.4	(2.0)	(1.6)	2.3	(0.3)	2.0
Other Changes in Net Assets (e)	(1.2)	2.9	1.7	(19.9)	0.4	(19.5)
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ (16.2)	\$ (1.1)	\$ (17.3)	\$ 3.6	\$ 18.2	\$ 21.8

¹ FY2010 Endowment Distribution and Net Transfer (to)/from Endowment have been restated to conform to accounting practice adopted in FY2011

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

		June 30	
	<i>note</i>	2011	2010
ASSETS:			
Deposits with the University.....	(15)	\$ 626.8	\$ 700.5
Receivables			
Student Receivables		3.8	3.5
Other Receivables		3.9	3.9
Prepayments and deferred charges.....		12.4	12.1
Notes Receivable	(16)	138.4	132.4
Pledges Receivable		210.1	180.8
Fixed assets, net of accumulated depreciation	(17)	1,647.0	1,651.8
Interests in perpetual trusts held by others		80.8	68.3
Long-term investments (primarily endowment).....	(18)	14,147.7	12,169.4
TOTAL ASSETS		16,870.9	14,922.7
LIABILITIES:			
Accrued Expenses		9.5	6.5
Deferred Revenue and other liabilities		43.3	37.6
Internal Debt Obligations	(19)	1,013.5	1,053.9
Government loan advances	(20)	9.9	10.7
TOTAL LIABILITIES		1,076.2	1,108.7
TOTAL NET ASSETS	(21)	15,794.7	13,814.0
TOTAL LIABILITIES AND NET ASSETS		\$ 16,870.9	\$ 14,922.7



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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 \$212.6 million in FY11. This is an increase of \$8.8 million or 4.3 percent above FY10. 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 \$60,000 now pay nothing towards the cost of their child's 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 sixty 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.

In FY11 FAS unrestricted spending on undergraduate financial aid increased by \$9.5 million, from \$55.0 million to \$64.5 million putting a further strain on our unrestricted funds while restricted funding remained virtually flat during the same period. This change resulted from a decrease in FY11 to the endowment returns made available for operations, putting more strain on our unrestricted resources. Financial aid presented in the table below excludes \$61.1 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 2011			FY 2010		
	Unrestricted	Restricted ⁽¹⁾	Total	Unrestricted	Restricted ⁽¹⁾	Total
Undergraduate	\$ 64.5	\$ 91.9	\$ 156.4	\$ 55.0	\$ 91.4	\$ 146.4
Graduate	24.6	23.9	48.5	24.2	23.7	47.9
Continuing Education	6.0	1.7	7.7	7.4	2.1	9.5
Total Financial Aid	<u>\$ 95.1</u>	<u>\$ 117.5</u>	<u>\$ 212.6</u>	<u>\$ 86.6</u>	<u>\$ 117.2</u>	<u>\$ 203.8</u>

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

2. GRANTS AND CONTRACTS

FAS grants and contracts increased by 6 percent in FY11 to \$205.1 million, from \$193.4 million in FY10. Grants and contracts are comprised of the following:

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<i>(in millions)</i>	FY 2011			FY 2010		
	Direct	Indirect	Total	Direct	Indirect	Total
Federally Sponsored Research						
National Institutes of Health (NIH)	\$ 36.2	\$ 19.1	\$ 55.3	\$ 38.2	\$ 19.3	\$ 57.5
National Science Foundation (NSF)	29.3	13.7	43.0	24.8	12.0	36.8
Department of Defense (DoD)	17.9	7.0	24.9	14.1	5.9	20.0
Other	19.5	7.6	27.1	13.6	6.1	19.7
Subtotal - Federally-Sponsored Research	102.9	47.4	150.3	90.7	43.3	134.0
Non-Federally Sponsored Research	30.4	4.7	35.1	36.8	5.0	41.8
Other Sponsored Awards	19.7	0.0	19.7	17.6	0.0	17.6
Total Sponsored	\$ 153.0	\$ 52.1	\$ 205.1	\$ 145.1	\$ 48.3	\$ 193.4
<i>Effective Indirect cost rate</i>			<i>34.1%</i>			<i>33.3%</i>

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 68 percent for organized on-campus research in both FY11 and FY10. 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 68 percent recovery), was 34.1 percent in FY11, an increase from 33.3 percent in FY10.

3. ENDOWMENT DISTRIBUTION

FAS endowment returns made available for operations decreased by 11.3 percent, to \$549.2 million in FY11 from \$619.1 million in FY10. This change reflects the University's decision to reduce the endowment returns made available for operations by 12 percent in FY11, made in response to the decrease in the endowment's market value in FY09. Endowment income represented 49 percent and 52 percent of the FAS's total revenues in FY11 and FY10, respectively.

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.

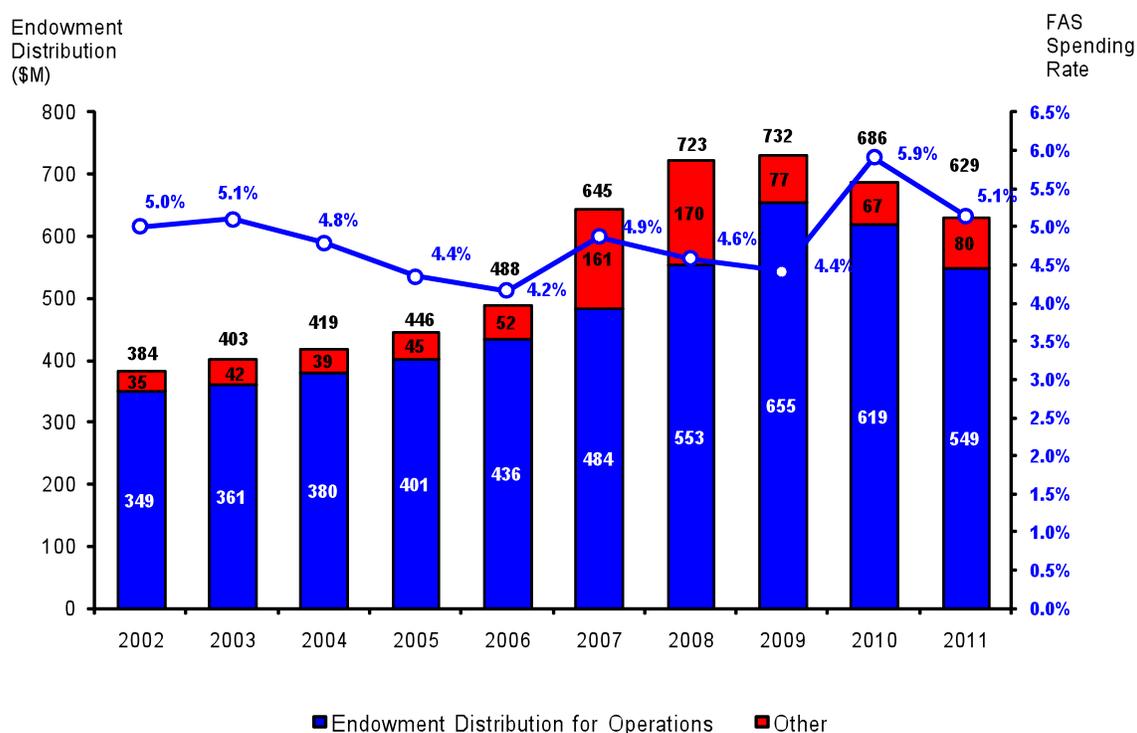
Combining all of the FAS endowment distributions the aggregate FAS payout rate (total distribution from the endowment divided by beginning-of-year endowment market value) was 5.1 percent in FY11, and 5.9 percent in FY10. The decrease in FY11 of the endowment payout rate resulted from a \$600 million increase in the FAS endowment market value on June 30, 2010. Details of the endowment payout rate are shown in the table below:

(in millions)	% of Market Value		% of Market Value	
	FY 2011		FY 2010	
Endowment distribution	\$ 549.2	4.4%	\$ 619.1	5.3%
Decapitalization for central administrative overhead	59.8	0.5%	56.8	0.5%
Endowment decapitalizations	20.5	0.2%	10.3	0.1%
Total spending from endowment	\$ 629.5	5.1%	\$ 686.2	5.9%

Beginning-of-year endowment market value ¹	\$12,241.0	\$11,663.3
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¹ 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 decrease of \$5.3 million in this category to \$2.4 million in FY11 from \$7.7 million in FY10 was driven by a decrease in the rate of interest paid on fund balances, from 1.05% in FY10 to 0% in FY11.

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5. TRANSFERS FROM UNIVERSITY - ACADEMIC PROGRAMS

In FY11, the FAS received \$58.3 million in income transfers predominantly from the Offices of the President and Provost, including funding from the Harvard University Science and Engineering Committee (HUSEC). \$24.5 million was related to gifts and endowments held by the University but restricted for FAS purposes, including professorships, financial aid and academic program support; another \$10.7 million of University support was for the Harvard College Library, which benefits the entire University; and \$23.1 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 FY11 and FY10:

<i>(in millions)</i>	<u>FY 2011</u>	<u>FY 2010</u>
Rental income	\$ 6.5	\$ 5.8
Sales of services	7.5	8.0
Admissions application fees	5.0	4.9
Program and event income	3.8	2.4
Royalty income	2.0	2.6
Publication income	2.1	2.0
Miscellaneous income	12.3	12.7
Other Income	\$ 39.2	\$ 38.4

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 FY11, these costs represented 51 percent of total FAS expenses, totaling \$563.5 million. This figure is 2.9 percent higher than FY10 spending of \$547.8 million. The year over year increase reflects an increase of salaries from the previous year by 2 percent and an increase of fringe benefit costs of 8 percent.

In FY11, total FTEs in the FAS remained unchanged from FY10 levels; Faculty FTEs were reduced slightly as well as staff FTEs while the Other category shows an increase of almost 8%.

<i>(\$ in millions)</i>	FY 2011⁽¹⁾		FY 2010⁽¹⁾	
Faculty:	n		n	
Ladder Faculty	721		720	
Non-Ladder Faculty	343		339	
Visiting Faculty	33		46	
Research and Academic Support ⁽²⁾	155		159	
Total Faculty Headcount	1,252	\$152.4	1,264	\$149.3
Staff FTEs				
Administrative and Professional	1,544		1,549	
Clerical and Technical/Service and Trades	1,317		1,352	
Total Staff FTEs	2,861		2,901	
Other ⁽³⁾	703		650	
Total Staff and Other	3,564	289.4	3,551	285.8
Total salaries and wages	4,816	441.8	4,815	435.1
Employee Benefits	121.7		112.7	
Grand Total	\$563.5		\$547.8	

(1) Counts are as of the beginning of the academic year - Fall 2011 and Fall 2010 respectively.

(2) Includes Research Associates, Research Fellows, and other faculty with limited or no teaching responsibilities.

(3) Includes Program Fellows, Coaching Assistants, Internal Post Docs, Teaching Assistants and Visiting Fellows

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

FAS operations and maintenance expense increased by \$6.0 million, or by 4.7% percent. At the end of FY11, the FAS campus included 264 buildings comprising approximately 9.8 million gross square feet of space. Operations and maintenance of plant includes the cost of utilities (\$43.3M), custodial, security and grounds keeping services (\$42.6M), repairs and maintenance (\$36.1M) and rental fees (net of recoveries) (\$11.3M).

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 budget size.

10. TRANSFERS TO UNIVERSITY - ACADEMIC PROGRAMS

In FY11, the FAS transferred \$17.4 million to the University for academic program support. Almost half of the amount transferred, \$9.9 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 \$7.5 million was transferred in FY11 by the FAS to the University for academic program support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

In FY10, the FAS transferred \$9.5 million to the Academic Initiatives Fund, and made a very small contribution to HUSEC of \$217 thousand.

11. OTHER EXPENSES

Other expenses, which include travel, postage, insurance, telephone and miscellaneous expenses increased by 2.4% to \$60.5 million in FY11 from \$59.1 million in FY10. Excluding a one-time, \$5 million investment in the Massachusetts Green High Performance Computing Center, a research computing consortium comprised of five Universities, the Commonwealth of Massachusetts and private industry; expenses in this category actually went down by 6.0%. These reductions continue a pattern of savings over the past three years of over 16% and a focused effort by the FAS to maintain fiscal discipline and a lower level of controllable expenditures. Major cost components in this category include: travel and entertainment costs (\$24.7 million), and telephone and photocopying costs (\$8.8 million), and insurance (\$6.5 million). The balance (\$20.5 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 \$130.5 million in FY11. Total capital expenditures included \$21.7 million for capital equipment, \$44.1 million for two large University-funded capital projects managed by the FAS - the Stem Cell and Regenerative Biology lab renovations in Sherman Fairchild (\$33.9 million), and the Wyss Institute in Cambridge infrastructure build-out and lab renovations (\$10.2 million), \$7.1 million for the purchase of a building in Washington, DC for the Dumbarton Oaks campus, \$5.1M in continued construction at the Northwest complex, and \$52.5 million of investments in existing plant, including renewal and renovations of athletic facilities, renewal projects in the College residential houses, capital renewal projects, greenhouse gas reduction and energy conservation measures, and fit-out of space to support faculty recruitment.

Funding for capital spending in FY11 and FY10 came from the following sources:

<i>(in millions)</i>		<u>FY 2011</u>	<u>FY 2010</u>
Total capital spending	\$	(130.5)	\$ (113.5)
Less: debt proceeds		16.2	68.7
Less: construction gifts		0.1	2.4
Less: support from the University		3.4	81.1
Less: funds designated for Construction in Progress/Other		51.9	(102.4)
Investment in plant and equipment, net	\$	(58.9)	\$ (63.7)

Support from the University represents funding for capital projects from Central resources. In FY11, the FAS received \$3.4 million 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 FY10, when the funding exceeded costs, the most significant item was the central support for the Stem Cell and Regenerative Biology lab renovations in Sherman Fairchild. 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 has approved spending beyond the annual spending rate to meet programmatic goals or to take advantage of extraordinary returns.

In FY11, the FAS took out an additional \$13.8 million from the endowment representing the net of endowment capitalizations and decapitalizations. These proceeds were used to fund capital projects and to shift some of the FAS's reserves from the endowment to the General Operating Account (GOA).

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets include one-time changes in addition to income received from split interest agreements. In FY11, other changes in net assets included a onetime paydown of internal debt of \$13.2 million. This payment is offset primarily by transfers from split interest agreements of \$8.2 million, a substantial increase from \$2.2 million received in FY10, and a one-time \$6.7 million funding transfer related to the funding of a capital project.

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 in FY11 relates to the reduction in the FY11 endowment distribution payout rate as noted in footnote 3, use of accumulated balances and the decision to fund certain capital projects with equity rather than debt.

16. NOTES RECEIVABLE

FAS Notes Receivable as of June 30, 2011 and 2010 were as follows:

<i>(in millions)</i>	<u>FY 2011</u>	<u>FY 2010</u>
Student Notes Receivable:		
Perkins Loan Program	\$ 11.9	\$ 12.7
University Loan Program	28.1	26.4
Faculty and Staff	<u>98.4</u>	<u>93.3</u>
Total Notes Receivable	\$ 138.4	\$ 132.4

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, 2011 and 2010:

<i>(in millions)</i>	<u>FY 2011</u>	<u>FY 2010</u>
Research facilities	\$ 1,034.2	\$ 1,034.1
Classrooms and offices	437.5	436.7
Housing facilities	431.9	413.2
Libraries	196.3	195.9
Museums and assembly facilities	134.1	134.1
Athletic facilities	129.6	126.5
Service facilities	12.8	12.8
Capital leasehold improvements	47.2	39.7
Land	4.7	1.5
Construction in Progress	86.5	47.0
Equipment	312.0	290.3
Total fixed assets at cost	<u>2,826.8</u>	<u>2,731.8</u>
Less: accumulated depreciation	<u>(1,179.8)</u>	<u>(1,080.0)</u>
Total fixed assets, net	\$ 1,647.0	\$ 1,651.8

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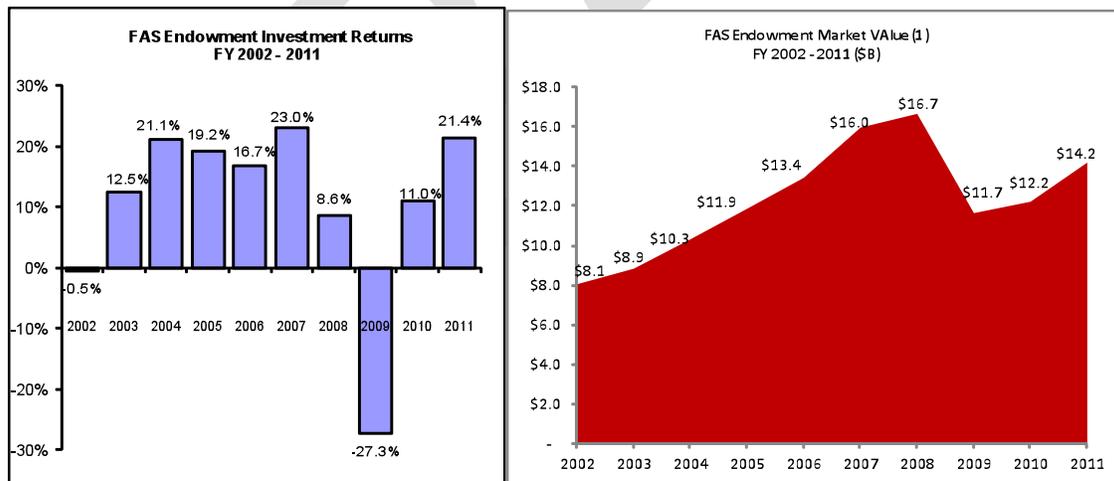
18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS's investments, primarily in endowment, totaled \$14.1 billion at FY11 year end. The market value of these investments increased by nearly \$2.0 billion, or 16 percent, from June 30, 2010. The increase in market value is driven by the net return on investments of 21.4 percent, less the funding of the FY11 endowment distribution. 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, 2011 and 2010:

<i>(in millions)</i>	<u>FY 2011</u>	<u>FY 2010</u>
Endowment investments	\$ 14,147.0	\$ 12,169.0
Gift fund investments	0.5	0.4
General Operating Account investments	0.2	-
Total Long term investments	\$ 14,147.7	\$ 12,169.4

The charts below summarize the investment returns over the past ten years from FY02 through FY11 and their impacts on the value of the FAS endowment.



⁽¹⁾ The 6/30/11 FAS endowment market value of \$14.2 billion includes endowment investments of \$14.1 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 6/30/11 is \$14.4 billion.

19. INTERNAL DEBT OBLIGATIONS

At the end of FY11, the FAS's outstanding debt was \$1.01 billion, \$40.4 million (4 percent) less than FY10.

<i>(in millions)</i>	<u>FY 2011</u>	<u>FY 2010</u>
Long-Term Debt	\$ 915.2	\$ 960.8
Faculty Loans	98.3	93.1
Total Debt and Notes Payable	\$ 1,013.5	\$ 1,053.9

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 FY11 the FAS prepaid principal of \$13.2 million; this payment along with equity funding capital projects has allowed FAS to lower the amount of its long-term debt.

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 2,000 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.