

APPENDIX

FACULTY OF ARTS AND SCIENCES FINANCIAL REPORT

FISCAL YEAR 2023

HARVARD UNIVERSITY

This report presents a financial view of the Faculty of Arts and Sciences of Harvard University operations including results of the Harvard John A. Paulson School of Engineering and Applied Sciences. The figures presented in the report have not been audited, are not intended to present financial results in accordance with Generally Accepted Accounting Principles (GAAP), and do not represent a subset of the University's financial statements and related footnotes.

(in millions)

Faculty of Arts and Sciences
Consolidated
Modified GAAP Statement of Activity
Fiscal Year Ending June 30, 2023

	<u>Fiscal Year 2023</u>	<u>Fiscal Year 2022</u>
Revenues		
Tuition and Fees	\$ 682.7	\$ 652.5
<i>Less: Financial Aid</i>	<u>(327.8)</u>	<u>(317.0)</u>
Net Tuition and Fees	354.9	335.5
Grants and Contracts - direct	211.4	196.8
Grants and Contracts - indirect	64.9	64.2
Endowment Distribution	898.7	850.8
Other Investment Income	6.0	7.0
Current-Use Gifts	158.3	122.2
Transfers from University - Academic Programs	85.4	63.1
Other Income	53.2	76.7
Income Reclasses ⁽ⁱ⁾	<u>(18.0)</u>	<u>(17.8)</u>
Total Revenues	1,814.8	1,698.5
Expenses		
Salaries and Wages	649.0	592.4
Employee Benefits	152.5	151.6
Fellowships and Awards	90.9	84.1
Supplies, Materials and Equipment	77.0	72.7
Operations and Maintenance of Plant	224.1	209.4
Principal and Interest on Internal Debt	44.6	45.7
Depreciation Expense	136.1	139.1
Transfers to University - University Assessment	49.3	47.2
Transfers to University - Academic Programs	18.0	17.8
Services Purchased	227.6	217.3
Other Expenses	85.1	54.1
Expense Reclasses ⁽ⁱ⁾	<u>(18.0)</u>	<u>(17.8)</u>
Total Expenses	1,736.2	1,613.6
Net Operating Results	<u><u>\$ 78.6</u></u>	<u><u>\$ 84.9</u></u>

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

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(in millions)

Faculty of Arts and Sciences
Consolidated
Statement of Activity
Fiscal Year Ending June 30, 2023

	Fiscal Year 2023			Fiscal Year 2022		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 682.7	\$ -	\$ 682.7	\$ 652.5	\$ -	\$ 652.5
<i>Less: Financial Aid</i>	(1) (124.3)	(203.5)	(327.8)	(127.9)	(189.1)	(317.0)
Net Tuition and Fees	558.4	(203.5)	354.9	524.6	(189.1)	335.5
Grants and Contracts - direct	(2) -	211.4	211.4	-	196.8	196.8
Grants and Contracts - indirect	(2) 64.9	-	64.9	64.2	-	64.2
Endowment Distribution	(3) 337.8	560.9	898.7	319.9	530.9	850.8
Other Investment Income	(4) 1.0	5.0	6.0	1.0	6.0	7.0
Current-Use Gifts	45.8	112.5	158.3	43.3	78.9	122.2
Transfers from University - Academic Programs	(5) 51.1	34.3	85.4	28.2	34.9	63.1
Other Income	(6) 53.1	0.1	53.2	77.2	(0.5)	76.7
Total Revenues (a)	1,112.1	720.7	1,832.8	1,058.4	657.9	1,716.3
Expenses						
Salaries and Wages	(7) 366.3	282.7	649.0	327.1	265.3	592.4
Employee Benefits	90.4	62.1	152.5	88.5	63.1	151.6
Fellowships and Awards	25.6	65.3	90.9	24.8	59.3	84.1
Supplies, Materials and Equipment	35.2	41.8	77.0	33.1	39.6	72.7
Operations and Maintenance of Plant	(8) 174.7	49.4	224.1	161.8	47.6	209.4
Principal and Interest on Internal Debt	138.6	0.1	138.7	136.6	0.1	136.7
Transfers to University - University Assessment	(9) 49.3	-	49.3	47.2	-	47.2
Transfers to University - Academic Programs	(10) 18.0	-	18.0	17.8	-	17.8
Services Purchased	151.6	76.0	227.6	147.9	69.4	217.3
Other Expenses	(11) 33.2	51.9	85.1	18.2	35.9	54.1
Total Expenses (b)	1,082.9	629.3	1,712.2	1,003.0	580.3	1,583.3
Net Operating Results	29.2	91.4	120.6	55.4	77.6	133.0
Investment in Plant and Equipment, net (c)	(12) (22.6)	(31.9)	(54.5)	(25.4)	(35.9)	(61.3)
Net Transfer (to)/from Endowment (d)	(13) 0.4	(1.8)	(1.4)	2.0	(4.6)	(2.6)
Other Changes in Net Assets (e)	(14) 46.4	6.6	53.0	43.4	1.2	44.6
Net Change in Fiscal Year Activity (a-b+c+d+e)	\$ 53.4	\$ 64.3	\$ 117.7	\$ 75.4	\$ 38.3	\$ 113.7

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(in millions)

Faculty of Arts and Sciences
CORE
Statement of Activity
Fiscal Year Ending June 30, 2023

	Fiscal Year 2023			Fiscal Year 2022		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
Revenues						
Tuition and Fees	\$ 538.0	\$ -	\$ 538.0	\$ 515.6	\$ -	\$ 515.6
<i>Less: Financial Aid</i>	(1)	(112.9)	(190.9)	(116.1)	(177.7)	(293.8)
Net Tuition and Fees	425.1	(190.9)	234.2	399.5	(177.7)	221.8
Grants and Contracts - direct	(2)	-	155.1	-	144.2	144.2
Grants and Contracts - indirect	(2)	43.4	-	42.1	-	42.1
Endowment Distribution	(3)	252.9	422.9	240.1	399.7	639.8
Other Investment Income	(4)	0.3	3.8	0.3	4.5	4.8
Current-Use Gifts		45.6	99.1	41.8	65.1	106.9
Transfers from University - Academic Programs	(5)	19.4	31.7	12.6	32.9	45.5
Other Income	(6)	(0.3)	(2.4)	22.4	(3.1)	19.3
Total Revenues (a)		786.4	519.3	1,305.7	758.8	465.6
						1,224.4
Expenses						
Salaries and Wages	(7)	248.8	209.3	458.1	220.3	196.4
Employee Benefits		61.7	44.9	106.6	59.9	45.7
Fellowships and Awards		22.5	59.4	81.9	22.5	54.8
Supplies, Materials and Equipment		21.8	16.5	38.3	19.6	16.2
Operations and Maintenance of Plant	(8)	128.1	32.4	160.5	116.9	31.7
Principal and Interest on Internal Debt		129.7	0.1	129.8	128.2	0.1
Transfers to University - University Assessment	(9)	37.1	-	37.1	35.6	-
Transfers to University - Academic Programs	(10)	14.0	-	14.0	13.7	-
Services Purchased		96.2	50.7	146.9	95.7	47.9
Other Expenses	(11)	8.2	33.0	41.2	1.0	23.3
Total Expenses (b)		768.1	446.3	1,214.4	713.4	416.1
						1,129.5
Net Operating Results		18.3	73.0	91.3	45.4	49.5
						94.9
Investment in Plant and Equipment, net (c)	(12)	(14.2)	(18.1)	(32.3)	(12.4)	(15.9)
Net Transfer (to)/from Endowment (d)	(13)	0.4	(2.4)	(2.0)	1.9	(7.4)
Other Changes in Net Assets (e)	(14)	45.3	5.7	51.0	42.7	1.9
						44.6
Net Change in Fiscal Year Activity (a-b+c+d+e)		<u>\$ 49.8</u>	<u>\$ 58.2</u>	<u>\$ 108.0</u>	<u>\$ 77.6</u>	<u>\$ 28.1</u>
						<u>\$ 105.7</u>

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Faculty of Arts and Sciences
Consolidated Balance Sheet

(in millions)

		June 30	
		2023	2022
ASSETS:			
Deposits with the University.....	(15)	\$ 1,541.0	\$ 1,383.4
Receivables			
Student Receivables		9.2	6.1
Other Receivables		30.4	35.8
Prepayments and deferred charges.....		16.7	15.0
Operating leases right of use		132.2	142.7
Notes Receivable	(16)	177.4	166.5
Pledges Receivable		683.0	711.3
Fixed assets, net of accumulated depreciation	(17)	2,371.2	2,261.7
Interests in perpetual trusts held by others		108.0	107.5
Long-term investments (primarily endowment).....	(18)	21,749.5	21,784.9
TOTAL ASSETS		\$ 26,818.6	\$ 26,614.9
LIABILITIES			
Accrued Expenses		24.1	17.4
Operating Lease Liabilities		132.2	142.7
Deferred Revenue and other liabilities		81.8	79.4
Internal Debt Obligations	(19)	1,419.5	1,424.5
TOTAL LIABILITIES		1,657.6	1,664.0
TOTAL NET ASSETS	(20)	25,161.0	24,950.9
TOTAL LIABILITIES AND NET ASSETS		\$ 26,818.6	\$ 26,614.9

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NOTES TO STATEMENT OF ACTIVITY

1. FINANCIAL AID

FAS financial aid to undergraduate, graduate, and continuing education students in the form of institutional scholarships and external grants totaled \$327.8 million in FY23. This increase of \$10.8 million or 3.4 percent from FY22 is driven by the 3 percent tuition increase combined with the change in the \$0 parent contribution threshold from \$65,000 to \$75,000. Since launching the Harvard Financial Aid Initiative in 2005, Harvard College has awarded over \$3 billion in grant aid to undergraduates, and the undergraduate financial aid award budget has increased over 200 percent, from \$80 million in 2005 to \$246.8 million in 2023. About 23 percent of undergraduates' families are not required to contribute to the cost of their child's education, as they have annual incomes of less than \$75,000, and approximately 55 percent of undergraduate students receive financial aid. Harvard College financial aid awards consist of grants; students are never required to take out loans to cover the cost of their education, although they are expected to contribute through term-time work.

Financial aid presented in the table below excludes \$90.9 million of fellowships and awards, primarily to graduate students. Those costs are captured in the expense section of the Statement of Activity. In FY22 fellowships and awards were \$84.1 million.

(in millions)

	FY 2023		FY 2022	
Undergraduate	\$	246.8	\$	235.1
Graduate		69.6		69.3
Continuing Education		11.4		12.6
Total Financial Aid	\$	327.8	\$	317.0

2. GRANTS AND CONTRACTS

FAS grants and contracts have increased by 5.9 percent in FY23 to \$276.3 million from \$261.0 million in FY22. Grants and contracts are comprised of the following:

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(in millions)

	FY 2023		
	Direct	Indirect	Total
Federally Sponsored Research			
National Institutes of Health (NIH)	\$ 40.4	\$ 20.8	\$ 61.2
National Science Foundation (NSF)	35.8	15.6	51.4
Department of Defense (DoD)	21.7	7.2	28.9
Other	18.2	9.0	27.2
Subtotal - Federally Sponsored Research	116.1	52.6	168.7
Non-federally Sponsored Research	69.7	12.3	82.0
Other Sponsored	25.6	-	25.6
Total Sponsored	\$ 211.4	\$ 64.9	\$ 276.3

Grants and contracts normally provide for the recovery of direct costs and partial recovery of indirect costs. Direct costs are those costs directly associated with the grant-funded activity (e.g., salaries of investigators, lab reagents, and research materials). Indirect cost recoveries help to pay for related costs such as facilities, libraries, and research administration. Indirect costs for federal projects are ordinarily recovered at a predetermined rate negotiated with the federal government. The negotiated federal rate for the FAS was 69.0 percent for organized on-campus research in FY23 and FY22. Nonfederal sponsors' rates vary. The ratio of indirect costs to direct costs, referred to as the "effective indirect rate" for federally sponsored research in the FAS was 45.3 percent in FY23, slightly down from 45.5 percent in FY22. 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 \$47.9 million or 5.6 percent, to \$898.7 million in FY23 from \$850.8 million in FY22. The increase above the budgeted 4.5 percent increase over FY22 distributions is related to new fundraising and campaign pledge payments. Endowment income represented 49.0 percent of the FAS's total revenues.

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

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) increased from 4.2 percent in FY22 to 4.7 percent in FY23.

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

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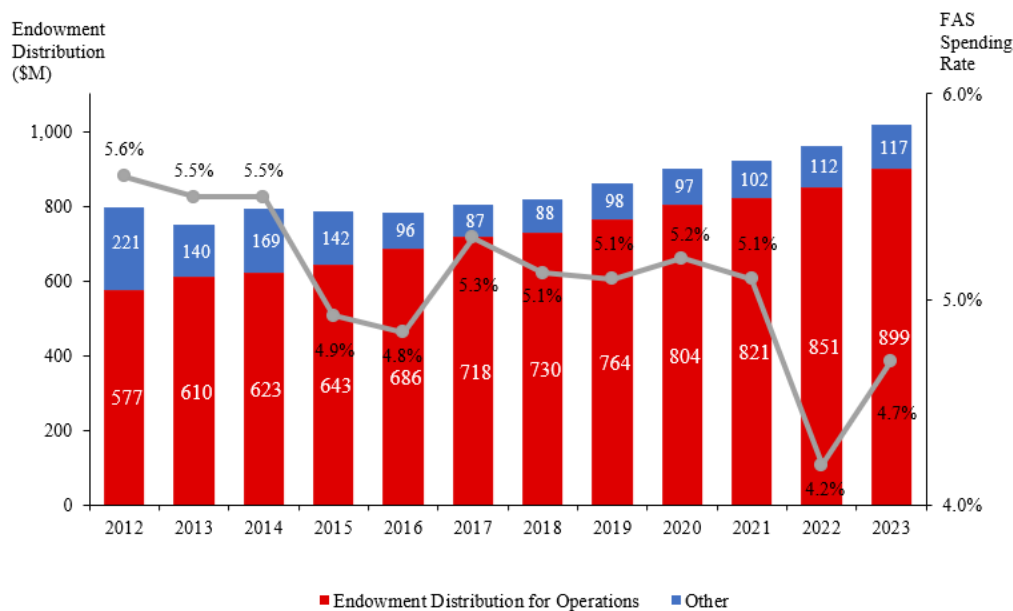
(in millions)

	% of Market		% of Market	
	FY 2023	Value	FY 2022	Value
Endowment distribution	\$ 898.7	4.1%	\$ 850.8	3.7%
Distribution for Central Administrative Operations	100.0	0.5%	94.5	0.4%
Federal NII Tax - GIA ¹	13.3	0.1%	10.0	0.0%
Endowment decapitalizations	4.3	0.0%	7.1	0.0%
Total payout from endowment	\$ 1,016.3	4.7%	\$ 962.4	4.2%
Beginning-of-year endowment market value ²	\$ 21,738.4		\$ 22,941.5	

¹ 1.4 percent excise tax on the net investment income of private colleges and universities

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

The chart below shows the FAS endowment distribution and payout rate since FY12.



4. OTHER INVESTMENT INCOME

Other investment income includes interest received on reserves, as well as short-term loan fund interest income and special investment returns. The FY23 income received was \$6.0 million compared to \$7.0 million in FY22. The decline is due to a decrease in special investment income.

5. TRANSFERS FROM UNIVERSITY: ACADEMIC PROGRAMS

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In FY23 the FAS received \$85.4 million in income transfers from the Offices of the President and Provost (OPP) and other University resources. Of this total, \$34.3 million was related to gifts and endowments held by the University but designated for the FAS in support of professorships, financial aid and academic programs, and \$12.9 million was directed to the Harvard College Library, which benefits the FAS and the University. Another \$38.2 million of net income transfers were directed to FAS for faculty research, financial aid, and University-wide initiatives that are housed within the FAS. Included in this amount was \$21.2 million in COVID-related relief, including the Investments in Faculty Initiative support provided by the University to help schools jump start activities as we returned to campus after the pandemic and a reimbursement for COVID-19 diagnostic testing applied for by the University's COVID Relief Cabinet for FEMA Funding.

6. OTHER INCOME

FAS Other Income included the following in FY23 and FY22:

	FY 2023	FY 2022
Royalty income	\$ 12.6	\$ 42.7
Sales of services	13.4	10.3
Rental Income	7.3	6.2
Admissions application fees	4.5	4.4
Miscellaneous income	15.4	13.1
Other Income	\$ 53.2	\$ 76.7

FY23 Other income decreased 30.6 percent—a combination of 70.5 percent decrease in Royalty income and a 19.4 percent increase from programs, events, and sales due to University programs and activities coming back after the COVID-19 health emergency. Miscellaneous income includes library fees, other fines and fees, interest on mortgages, and commissions.

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7. SALARIES, WAGES, AND BENEFITS

Salaries, wages, and benefits are the largest component of the FAS's expenses. In FY23 these costs represented 46.8 percent of total FAS expenses, compared to 47.0 percent in the prior year. The total of \$801.5 million was \$57.5 million or 7.7 percent more than FY22 spending of \$744.0 million.

The annual merit increase for FAS union employees was 5.0 percent. FAS Faculty and exempt employees received an annual merit increase of 4.8 percent in FY23. The benefits component was largely flat with an increase of 0.6 percent from the prior year.

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

FAS operations and maintenance expenses increased by \$14.7 million or 7.0 percent, from \$209.4 million in FY22 to \$224.1 million in FY23. At the end of FY23 the FAS campus included 266 owned buildings, comprising approximately 10.1 million gross square feet. O&M of plant includes custodial, security, and grounds keeping services (\$79.2 million); the cost of utilities (\$64.9 million); repairs and maintenance (\$60.4 million); and rental and other fees, net of recoveries (\$19.6 million). The main driver for the overall increase is related to the hybrid campus operations in FY22 due to COVID-19 and a return to a fully residential campus in FY23.

9. TRANSFERS TO UNIVERSITY: UNIVERSITY ASSESSMENT

The University Assessment pays for services provided to the FAS by the University, including legal services, general accounting, and maintenance of enterprise IT systems. Each faculty within Harvard University is assessed based on its relative share of trailing three-year total expenses (i.e., FY20–FY22 average for the FY23 Assessment). The University Assessment increased by 4.4 percent, from \$47.2 million in FY22 to \$49.3 million in FY23.

10. TRANSFERS TO UNIVERSITY: ACADEMIC PROGRAMS

In FY23 the FAS transferred \$18.0 million to the University for academic program support. Of this total, \$13.2 million was transferred for the Academic Initiatives Fund, which began in FY00 and provides support for University initiatives at the discretion of the president and provost. This contribution is made annually by each Harvard faculty and is based on each faculty's endowment market value, as well as its two-year trailing salary and wage expense (exclusive of student salaries and salaries bearing overhead).

Another \$4.8 million was transferred in FY23 by the FAS to the University for academic program support for science initiatives funded through the Harvard University Science and Engineering Committee (HUSEC).

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11. OTHER EXPENSES

Other expenses increased by 57.3 percent from \$54.1 million in FY22 to \$85.1 million in FY23. Major cost components in this category include travel and entertainment (\$33.4 million); other institutional activity (\$13.0 million); interest expense (\$8.5 million); and taxes, fees, and licenses (\$5.2 million). The balance (\$25.0 million) was made up of other miscellaneous costs.

12. INVESTMENT IN PLANT AND EQUIPMENT, NET

Investment in plant and equipment, net, represents the amount invested by the FAS in current and future year capital projects. FAS capital spending for buildings and equipment totaled \$247.2 million or a 41.7 percent increase from the prior year. Of that, capital expenditures for equipment comprised \$41.3 million of this total. The balance of \$205.9 million was invested in improvements to facilities: \$47.1 million for House Renewal, \$58.0 million for programmatic and renewal projects in affiliates, \$43.6 million renovation of 60 Oxford Street for HQI, and \$57.2 million investment in various capital renewal, maintenance, and faculty projects across all FAS Schools.

Funding for capital spending in FY23 and FY22 came from the following sources:

(in millions)

	<u>FY2023</u>	<u>FY2022</u>
Total Capital Spending	\$ (247.2)	\$ (174.5)
Less: Debt Proceeds	89.1	102.3
Less: Construction Gifts	55.0	34.8
Less: Funds Designated for Construction / Other	<u>48.6</u>	<u>(23.9)</u>
Investment in Plant and Equipment, net	<u>\$ (54.5)</u>	<u>\$ (61.3)</u>

FAS spent \$54.5 million of operating funds for capital projects and equipment; of that \$41.1 million was spent on equipment for faculty research.

13. NET TRANSFER (TO)/FROM ENDOWMENT

Net transfer (to)/from endowment represents changes in the endowment funds related to endowment capitalizations of unexpended balances and decapitalizations. Endowment decapitalizations occur on funds where the donor or the Corporation has approved spending beyond the annual spending rate to meet programmatic goals.

In FY23 the FAS returned \$1.4 million to the endowment, representing endowment capitalizations net of decapitalizations. The equivalent figure in FY22 was \$2.6 million.

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The change is driven by a decrease in decapitalizations of \$3.0 million and a decrease of capitalizations of \$4.4 million.

14. OTHER CHANGES IN NET ASSETS

Other changes in net assets in FY23 totaled \$53.0 million in revenue to the FAS. This includes \$35.4 million related to restructuring the FAS's internal debt schedule with the University and \$17.6 million of distributions from split interest agreements and special investments.

NOTES TO BALANCE SHEET

15. DEPOSITS WITH THE UNIVERSITY

Deposits with the University are made up of fund balances and other General Operating Account (GOA) balances. The GOA consists of the general or current funds of the University, as well as the assets and liabilities related to student and faculty loans and facilities.

On June 30, 2023, deposits were \$1,541.0 million, up \$157.6 million from \$1,383.4 million in the prior year. This increase was primarily driven by student receivables returning to pre-COVID-19 levels.

16. NOTES RECEIVABLE

FAS notes receivable as of June 30, 2023 and 2022 were as follows:

<i>(in millions)</i>	<u>FY 2023</u>	<u>FY 2022</u>
Student Notes Receivable:		
University Loan Program	\$ 27.0	\$ 27.0
Faculty and Staff	150.4	139.5
Total Notes Receivable	<u>\$ 177.4</u>	<u>\$ 166.5</u>

Faculty and staff notes receivable are primarily mortgages and educational loans. Mortgages include shared appreciation loans, loans that bear interest at the Applicable Federal Rate (AFR), and zero-interest loans. In addition, certain mortgages bear interest at the current market rate, which may be subsidized for an initial period. Educational loans are primarily zero-interest loans.

17. FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION

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Fixed assets are recorded at cost or fair market value on the date of acquisition, net of accumulated depreciation. Depreciation is calculated using the straight-line method computed over the useful life of the asset. In addition to FY23 capital spending as noted in footnote 12, assets may increase or decrease through acquisitions, sales, or impairments.

The table below summarizes FAS assets as of June 30, 2023 and 2022:

<i>(in millions)</i>	<u>FY2023</u>		<u>FY2022</u>	
Research facilities	\$	1,361.9	\$	1,362.4
Housing facilities		1,308.0		1,210.0
Classrooms and offices		599.6		589.8
Libraries		259.5		257.2
Athletic facilities		231.2		214.6
Museums and assembly facilities		195.5		187.9
Leasehold improvements		100.6		96.8
Service facilities		44.9		43.4
Land		5.6		5.6
Construction in Progress		170.4		121.5
Equipment		459.6		451.1
Total fixed assets at cost		<u>4,736.8</u>		<u>4,540.3</u>
Less: accumulated depreciation		<u>(2,365.6)</u>		<u>(2,278.6)</u>
Total fixed assets, net	\$	<u>2,371.2</u>	\$	<u>2,261.7</u>

In FY23, the largest increase in the FAS Physical Plant was in housing facilities, specifically from House Renewal with Adams House.

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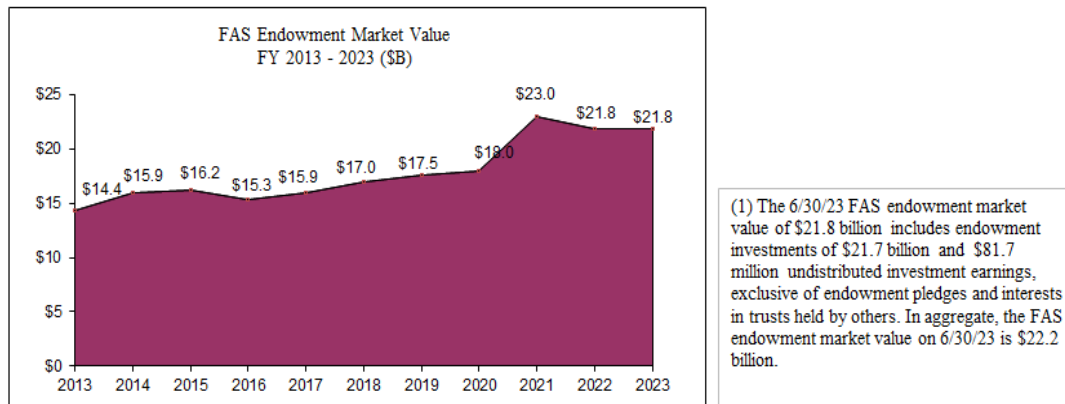
18. LONG-TERM INVESTMENTS (PRIMARILY ENDOWMENT)

The FAS’s investments, primarily endowment, totaled \$21.7 billion at FY23 year end. The market value of these investments decreased by \$35.4 million, or 0.2 percent, from June 30, 2022. This change was primarily driven by the combination of market returns of 2.9 percent and the funding of the annual endowment distribution for operations. The change in market value includes all endowment activity: investment appreciation and depreciation, endowment distributions, new gifts, additions to endowment (capitalizations), and the use of appreciation for specific purposes approved by the Corporation (decapitalizations). Included in the General Operating Account Investments was the FAS investment in the Giant Magellan Telescope (GMT).

The table below summarizes the FAS’s long-term investments as of June 30, 2023 and 2022:

<i>(in millions)</i>	<u>FY2023</u>	<u>FY2022</u>
Endowment investments	\$ 21,717.1	\$ 21,758.9
Gift fund investments	2.4	1.0
General Operating Account investments	30.0	25.0
Total Long term investments	\$ 21,749.5	\$ 21,784.9

The charts below summarize the FAS endowment market value over the past 10 years:



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19. INTERNAL DEBT OBLIGATIONS

At the end of FY23, the FAS's outstanding debt was \$1,419.5 million, \$5.0 million less than FY22.

<i>(in millions)</i>	FY 2023	FY 2022
Long-Term Debt	\$ 1,269.1	\$ 1,285.0
Faculty Loans	150.4	139.5
Total Debt and Notes Payable	1,419.5	1,424.5

Changes in long-term debt reflect new borrowings, principal payments, and pay down of debt on retired plant assets. In FY23, the FAS long-term debt portfolio decreased by \$5.0 million, a small decrease from the prior year and driven by scheduled payments on said debt.

20. TOTAL NET ASSETS

Total net assets are comprised of 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. Administered by the University, the GOA 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 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 FY23 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 that 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, 2023

	Fiscal Year 2023		
	Total - All Funds	Adjustments ⁽ⁱ⁾	Modified GAAP
Revenues			
Tuition and Fees	\$ 682.7		\$ 682.7
<i>Less: Financial Aid</i>	<i>(327.8)</i>		<i>(327.8)</i>
Net Tuition and Fees	354.9	-	354.9
Grants and Contracts - direct	211.4		211.4
Grants and Contracts - indirect	64.9		64.9
Endowment Distribution	898.7		898.7
Other Investment Income	6.0		6.0
Current-Use Gifts	158.3		158.3
Transfers from University - Academic Programs	85.4		85.4
Other Income	53.2		53.2
Income Reclasses		<i>(18.0)</i>	<i>(18.0)</i>
Total Revenues	1,832.8	(18.0)	1,814.8
Expenses			
Salaries and Wages	649.0		649.0
Employee Benefits	152.5		152.5
Fellowships and Awards	90.9		90.9
Supplies, Materials and Equipment	77.0		77.0
Operations and Maintenance of Plant	224.1		224.1
Principal and Interest on Internal Debt	138.7	(94.1)	44.6
Depreciation Expense	-	136.1	136.1
Transfers to University - University Assessment	49.3		49.3
Transfers to University - Academic Programs	18.0		18.0
Services Purchased	227.6		227.6
Other Expenses	85.1		85.1
Expense Reclasses		<i>(18.0)</i>	<i>(18.0)</i>
Total Expenses	1,712.2	24.0	1,736.2
Net Operating Results	120.6	(42.0)	\$ 78.6
Depreciation		136.1	136.1
Cash Flow Provided by (Used in) Operating Activities		94.1	214.7
Investment in Plant and Equipment, net	(54.5)	54.5	-
Capital Acquisitions and Expenditures		<i>(249.6)</i>	<i>(249.6)</i>
Cash Flow Provided By (Used in) Investing Activities		(195.1)	(249.6)
Principal Payments (internal loans)			(94.1)
Financing Activities			
Net Transfer (to)/from Endowment	(1.4)		(1.4)
New Debt (internal loans)		130.1	130.1
Principal Pre-payments (internal loans)		-	-
Construction Gifts Applied		43.0	43.0
Split Interest Agreements and Other Changes in Net Assets	53.0	22.0	75.0
Cash Flow Provided By (Used in) Financing Activities		195.1	246.7
Net Change in Fiscal Year Activity	\$ 117.7	\$ 0.0	\$ 117.7

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

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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 nonfederal grants, depending on the stated terms.

FUNDS (BY TYPE):

Unrestricted Funds are those funds that 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 grant and contract revenue, and a miscellany of sales and other revenues. Unrestricted funds also include funds that are legally unrestricted but have been designated for purposes assigned by Harvard's internal policies or decisions.

Restricted Funds include grants and contracts, current-use gifts, and endowment funds with donor-imposed restrictions, as well as certain endowment funds that have been internally designated for a specific purpose. Funds with donor restrictions have constraining terms assigned by individual or foundation donors. Terms describe how the dollars should be spent. The FAS holds over 6,500 restricted endowment funds and over 2,300 restricted gift funds. Endowment funds are invested in the General Investment Account, a pooled fund managed by 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 nonfederal 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 in Gadsden, Alabama), in other cases we have accumulated balances in anticipation of significant costs on the horizon, including those related to faculty growth, new buildings, curricular initiatives, study abroad, and other strategic investments.

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