Financial Overview
From the Vice President for Finance and the Treasurer

At the onset of the pandemic, forty million Americans were out of work, the stock market was down 25%, vaccines were a distant hope, and Harvard’s campus, like most every other college and university in the country, was nearly empty with the move to remote learning and work. It was during this time — when the scope and duration of the pandemic, and any resulting economic fallout was unknown — that Harvard’s governing board approved a budget for fiscal year 2021 that anticipated a severe adverse financial impact from COVID-19 on the University. In the face of all this uncertainty, Harvard’s financial plan was anchored on three key principles articulated by President Larry Bacow, Provost Alan Garber, and Executive Vice President Katie Lapp: to prioritize community health and safety, advance the mission of pursuing teaching and research excellence, and recognize that Harvard is its people. These principles deliberately placed Harvard’s mission and its people — students, faculty, researchers and staff — at the heart of Harvard’s financial focus. By making key investments in remote teaching and learning, developing extensive testing and tracing programs, continuing to advance critical research, avoiding widespread layoffs, and continuing to pay idled workers, the University operated throughout fiscal year 2021 fulfilling those principles.

Fortunately, Harvard’s finances ended the year in a dramatically improved position than the initial budget anticipated, with a consolidated University surplus of $283 million. As expected, revenues were down for the second year in a row; the first time since the Great Depression in the 1930’s. This revenue loss was driven by closed campus operations — affecting net tuition and executive education, board and lodging, parking, and other services income. The Harvard community rallied in a shared and purposeful effort to reduce expenses commensurate with the losses in revenues. Over the two-year period from fiscal year 2019 to fiscal year 2021, revenues declined 5%, as did expenses. The success of this effort directly enabled the University to:

- Pivot to a remote environment, and then enable the transition to a hybrid environment through investments in safety and health measures as well as digital technologies. The University invested $83 million during fiscal year 2021 in testing and tracing costs, personal protective equipment, technology of all kinds, and the reconfiguration of classrooms and labs. So far, we have kept COVID cases relatively low within our community thanks to guidance from many Harvard health leaders and experts, and the cooperation of all members of the community.

- Support students by granting admission deferrals, increasing per-student levels of financial aid and scholarships, waiving graduate housing rental contracts, providing emergency support grants and eliminating work study requirements. In total, net student income from tuition, room and board was down $182 million or 17% from fiscal year 2020.

- Avoid any widespread job layoffs. As the pandemic displaced work for employees and contract workers in our workforce, Harvard provided nearly $60 million in continuous pay and benefits to more than 2,800 members of our community. This helped these colleagues avoid unemployment and ensured a job for them to return to as campus activities resumed.

- Preserve and build reserves in the schools and units for mission purposes.

This work was not easy, and it came with many sacrifices from many people across our entire community. We thank Harvard’s students, faculty, researchers and staff, those who have been remote and those on campus, for their flexibility, hard work, and determination to find a way through difficult times.
In the midst of the world-wide impacts of the pandemic, with inequities laid bare and exacerbated, we are inspired to see leaders throughout Harvard nonetheless finding and acting in new and significant ways. All of Harvard’s schools are expanding their reach and pedagogical impact through new methods of digital learning, increasing access to students, and making research discoveries across all fields. Harvard seems reinvigorated and is capitalizing on new ways of teaching, learning, and trying to make the world a better place through scholarship and research.

In fiscal year 2022 and beyond, we are focused on the opportunities the pandemic has provided to re-imagine how teaching, learning, research, and work happens — on campus and beyond — to ensure that our financial resources are allocated to areas of highest priority and need.

Thanks to capable and careful management by Harvard Management Company, the endowment enjoyed an outstanding year as further described in Narv Narvekar’s letter later in the annual report. The endowment is sometimes misunderstood as a checkbook for free spending, however that is not how it works, nor how it was intended by the donors whose gifts created the endowment. Their gifts are designated for use solely as ongoing funding for academic, teaching, research, and other campus activities for generations to come. More often than not, the endowed funds also carry specific use restrictions. We are gratified that this year’s return results will provide a lift to operations in the next few years but remain aware that history teaches that capital markets give and take away.

We want to thank each and every donor to the University — past and present — for understanding that Harvard’s excellence in teaching and research is made possible through philanthropy. Ten percent of this past year’s revenues came from current year donors, and 39 percent from donors of the past through endowment distributions. We are deeply appreciative of their support.

Finally, we thank the entire Harvard community for pulling together during an enormously challenging year, and so successfully advancing the educational and research mission amid the pandemic. It has been inspiring to be a part of it.

Thomas J. Hollister  
VICE PRESIDENT FOR FINANCE

Paul J. Finnegan  
TREASURER

October 2021
FINANCIAL OVERVIEW

The University ended fiscal year 2021 with an operating surplus of $283 million compared to a $10 million deficit in fiscal year 2020. Our positive results are due to generous contributions and a disciplined focus on financial management.

OPERATING REVENUE

In fiscal year 2021, total operating revenue decreased 2% or $124 million to $5.2 billion.

Total net student income decreased 17% to $888 million in fiscal year 2021. Revenue from traditional student programs (undergraduate and graduate) was down $55 million as students took advantage of generous deferral policies to pause their course of study during the pandemic. The University’s commitment to financial aid remained steadfast with aid relative to student charges increasing from the prior year. Board and lodging revenue of $69 million declined 58% driven by a significantly reduced on-campus presence for the full academic year. Net executive and continuing education totaled $378 million and was substantially impacted by the COVID-19 pandemic, declining $122 million or 24% driven by program cancellations and enrollment declines over a two-year span from fiscal year 2019 to fiscal year 2021.

Sponsored support was not significantly impacted by the pandemic in fiscal year 2021, as the University prioritized research activity in return to campus planning last year. As a result, revenue from federal and non-federal sponsored sources increased 1% to $927 million. Federal funding, which accounted for approximately 67% of total sponsored revenue in fiscal year 2021, increased 1% to $625 million. Non-federal sponsored revenue, attributable to funding from corporations, foundations, and other non-federal sponsors, remained relatively flat at $302 million.

We are grateful to all donors who have continued to support the University’s mission during this unprecedented time, with current use giving continuing at record levels. Current use gifts, received from alumni, foundations and others, totaled $541 million, representing approximately 10% of operating revenues in fiscal year 2021. Combined with gifts for current use and Harvard’s endowment distribution, philanthropy accounts for 49% of fiscal year 2021 revenue.

In fiscal year 2021, the endowment distribution of $2.0 billion increased by 2% with the help of new gifts to the endowment. In the aggregate, Harvard’s endowment payout rate (i.e., the dollars withdrawn annually for operations as a percentage of the endowment’s prior year-end market value) was 5.2%, consistent with the prior fiscal year, and in line with the University’s targeted payout rate range of 5.0% – 5.5%. The University continues to be keenly focused on managing the endowment’s payout rate in order to maintain an appropriate balance between supporting the University’s near-term programmatic needs and aspirations and safeguarding the endowment’s long-term purchasing power.
The University’s operating expenses decreased by $417 million or 8%, to $5.0 billion as of June 30, 2021. While much of this decline was the result of large, one-time costs incurred during fiscal year 2020 ($71 million related to early retirement benefits in addition to other costs related to asset impairment and environmental remediation), Harvard did realize significant cost savings, a testament to the University’s ability to pivot and adapt to the changing environment. Excluding fiscal year 2020’s early retirement costs, compensation expense decreased 1%, as retiree-driven vacancies offset contractual union wage increases and year-end bonuses for faculty and staff. By avoiding widespread layoffs and continuing to compensate our idle workers, Harvard was able to continue to support its community throughout the pandemic.

The reduced on-campus presence, combined with sound financial management, resulted in a decrease in non-compensation related expenses in fiscal year 2021. The decrease in discretionary spending was comprised of savings in travel (-$69 million, 97%), space and occupancy (-$47 million, 13%), supplies and equipment (-$33 million, 14%), and services purchased (-$26 million, 4%).
RESPONDING TO COVID-19

The COVID-19 vaccine is one of the breakthroughs made through Harvard’s research enterprise that yields discoveries with the potential to improve lives, transform industries, and make a positive social and economic impact.

Two of the three vaccines currently available in the United States have their origins in Harvard Medical School laboratories: the Moderna vaccine and the Johnson & Johnson vaccine.

Harvard awarded the coveted George Ledlie Prize to Dan H. Barouch, the William Bosworth Castle Professor of Medicine at Harvard Medical School and Director of the Center for Virology and Vaccine Research at Beth Israel Deaconess Medical Center for his research culminating in an effective vaccine for COVID-19 developed by Johnson & Johnson.

“If you ever wondered why you support this work, the answer is you are literally helping to save humanity as we speak.” – President Lawrence S. Bacow

To respond to the critical challenges of COVID-19, the University launched several initiatives to offer much needed resources and support for communities where we live, learn, and work.

COVID-19 Testing
Regular testing has been a key part of the University’s collective efforts to protect the health and safety of our community. Over 1 million COVID-19 tests have been administered to Harvard affiliates with an on-campus presence since June 1, 2020.

Financial Aid
Building on the commitment to expanding access to an affordable college education, the University granted $597 million in financial aid and scholarships for fiscal year 2021 to support need from students and families during a period of economic uncertainty.

Support for Temporary Emergency Shelter
The University and the Massachusetts Institute of Technology each donated $250,000 to the City of Cambridge to support the creation of a temporary emergency shelter, providing relief for the City’s homeless residents during the pandemic.

Economic Impact
As the fifth largest employer in Massachusetts, the University anchored the state’s knowledge-based economy by providing nearly $60 million in continuous pay and benefits to more than 2,800 employees and contract workers whose work had been either fully or partially displaced or idled due to the pandemic.

Community Partnerships
The University awarded emergency response grants to local nonprofit organizations to support the delivery of food supplies, medicine, educational programming, and essential resources to more than 19,000 residents in Cambridge and Allston-Brighton.

Housing Health Care Workers and First Responders
The University offered the use of the Harvard Square Hotel to the Cambridge Health Alliance and Cambridge Police, Fire, and Emergency Medical Services for housing health care workers and first responders who needed a place to stay in close proximity to hospitals and health care facilities.
BALANCE SHEET

Investments and endowment
In fiscal year 2021, the return on the endowment was 33.6% and its value (after the net impact of distributions from the endowment for operations, and the addition of new gifts to the endowment during the year) increased from $41.9 billion at the end of fiscal year 2020 to $53.2 billion at the end of fiscal year 2021. More information can be found in the Message from the CEO of Harvard Management Company, found on page 9 of this report.

The University has a policy of maintaining liquidity outside of the General Investment Account (GIA) through a combination of cash, cash equivalents and short-term investments. These investments totaled $1.5 billion at June 30, 2021 compared to $1.6 billion at June 30, 2020 (see Note 2).

Debt
Bonds and notes payable decreased from $5.7 billion at June 30, 2020 to $5.5 billion at June 30, 2021. The University maintained its AAA rating by S&P Global Ratings and Aaa by Moody’s Investor Services.

Fixed assets
The University’s Science and Engineering Complex (SEC) building, home to the Harvard John A. Paulson School of Engineering and Applied Sciences (SEAS), came online in fiscal year 2021, resulting in over $40 million in incremental costs including depreciation. The SEC opened its doors to students in the fall of 2021 and this 544,000-square-foot complex has been certified as one of the healthiest, most sustainable, and energy-efficient laboratories in the world.

The University curtailed spending on capital projects and acquisitions as a result of the COVID-19 pandemic, and for fiscal year 2021 it invested $410 million compared to $627 million in fiscal year 2020. The University has continued to invest in renewal projects across the campus in a manner that will allow us to prudently manage capital projects during this upcoming period of financial uncertainty.