

Financial Overview

From the Vice President for Finance and the Treasurer

Harvard's operations were reinvigorated in fiscal year 2022 with both revenues and expenses exceeding, for the first time, pre-pandemic levels. This occurred amidst steeply rising inflation, changes in how and where work is accomplished, volatility in the capital markets and economic uncertainty—all which demand vigilance and innovative, future-oriented shifts in the way the University operates. Over the past year, rather than returning to “business as usual,” leaders across Harvard have been focused on how we can incorporate the collective learnings from the past two and half years with respect to digital pedagogy, student access, dynamic approaches to work, the use of space and travel, and research aimed at solving the world's challenges.

We want to thank Harvard's faculty and staff for enabling outstanding teaching that benefits our students and ground-breaking research that benefits the world. We also want to thank all members of the Harvard community for carefully managing our financial resources as we strive to steward every dollar in support of the mission of the University.

Revenues this past year rebounded with an 11% increase to \$5.8 billion, following two years of sequential declines with fewer students on campus during the pandemic. The revenue increases this past year reflect a return of students to campus with resulting increases in tuition, room and board, and other related service revenues, such as parking, rent and health fees. Harvard had more students on campus this past year than at any point in its history as the number of entering first-year students returned to normal levels, and the number of returning students was boosted by those who took deferrals during the pandemic.

As the University's single largest contributor to revenue, 45% of this year's income arose from philanthropy—9% from current use gifts, which have an immediate impact on operations, and 36% from the

ongoing support of distributions from the endowment. We want to thank all the alumni and donors who gave to the University—past and present—as Harvard's excellence in teaching, scholarship, research, and generous financial aid is made possible through philanthropy. We are deeply appreciative of this extraordinary support.

Expenses rebounded as well with a 9% increase, although rising less than revenues due to comparatively high vacancy rates in staffing as well as sourcing challenges with goods and services. The difficulty in hiring people and underlying supply-chain issues were common problems across the country this past year. The combination of the temporary boost in revenues along with temporarily suppressed spending drove a significant portion of the \$406 million surplus. Peer universities experienced this same phenomenon.

A surplus at Harvard is a consolidation of the underlying results of each of the schools and units within the University. Surpluses, and for that matter, losses, are earned and controlled locally at Harvard, and it is our schools and units who decide how to allocate any surplus funds either by reinvesting into their respective missions, or setting aside funds for rainy day reserves or future programmatic expansion. Harvard is actively investing across the campus—please see a few examples in priority areas including education, financial aid, student accessibility, research, and climate sustainability detailed later in this report. Building reserves is also wise at this time as inflation increases our operating and capital costs, and recession fears mount. Recessions put pressure on all sources of revenues and rapidly affect donations and research grants, as well as the need for increased financial aid. Remaining adroit and attentive is essential as history shows that planning ahead, including building reserves, can help buffer negative impacts during times of economic adversity.

The endowment experienced a negative return of 1.8% for the year. This is a very good result given the significant declines in both the equity and bond markets in the past year. We wrote a year ago that “history teaches that capital markets give and take away,” so we remain cautious in our administration of the endowment as we endeavor to spend as much as possible from the endowment annually to support current academic and research activities, while keeping an eye on the intent of our alumni and donors to utilize their endowed gifts as an ongoing source of income, often with specific restrictions, for generations of future students. The positive impact of a 34% return a year ago has been muted by this year’s market reversals, but Harvard Management Company (HMC) continues to wisely manage the endowment so that it can best provide steady and increasing distributions to the University’s budget into the future. We thank Narv Narvekar and his HMC colleagues for their excellent stewardship, and encourage you to read Narv’s letter on page 13 of the annual report.

Amidst these challenges, the University’s overall financial condition remains very strong with ample levels of liquidity, comparatively low levels of debt, and ready access to borrowings as needed. This past spring, as the window was closing on many years of a low interest rate environment, we issued \$750 million of both new taxable and tax-exempt long-term debt, including a Green Bond issuance, reflecting Harvard’s commitment to climate sustainability. The all-in fixed interest rate on this spring’s indebtedness is lower than similar duration US Treasury borrowing rates are today, and reduces our overall cost of the total debt portfolio to just below 4%.

As we emerge from the pandemic that left our campus empty for so long, we recognize that—incredibly and admirably—it did not impede our community from carrying on in the fulfillment of the University’s mission. Instead, the experience has unleashed new energy, new approaches, and new paths to help chart the roadmap to Harvard’s future. With a strong financial foundation and agile planning, the University is well positioned to manage through both future opportunities and challenges.



Thomas J. Hollister
VICE PRESIDENT FOR FINANCE



Paul J. Finnegan
TREASURER

October 2022

Harvard University's stewardship of its financial resources is aimed at advancing teaching, learning, and research priorities to make a positive impact in the world. This includes expanding access to education across the globe, supporting students with our strong financial aid program, fulfilling our ongoing dedication to public service, and transforming how problems are understood and addressed through research. The key financial highlights for fiscal year 2022 included in this report demonstrate the University's continued commitment to advancing these priorities.

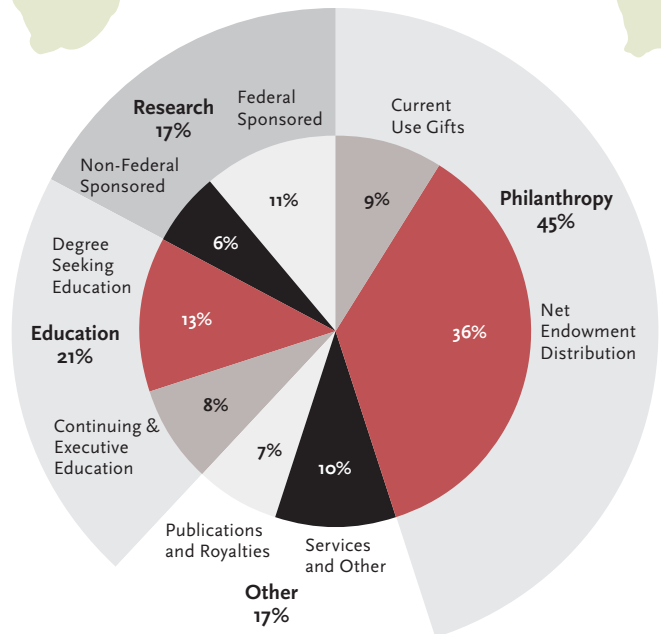
FINANCIAL OVERVIEW

The University ended fiscal year 2022 with an operating surplus of \$406 million compared to \$283 million in fiscal year 2021. The result marks the first time that revenue and expenses have exceeded pre-pandemic levels. While on-campus activities and programming revitalized revenue with more students enrolled than any year prior, expenses were constrained by evolving pandemic restrictions, high vacancy rates in staffing, and sourcing challenges for goods and services.

In fiscal year 2022, total operating revenue increased 11% or \$587 million to \$5.8 billion. Harvard's diversified revenue portfolio relies on three main sources of revenue: education or tuition, sponsored research, and philanthropy.

Total **education** revenue comprises 21% of revenue and includes tuition and board and lodging payments from both traditional degree seeking students (undergraduate, graduate, and professional), as well as executive and continuing education learners. In support of **research**, our talented faculty are awarded external grants to further global and research priorities and this sponsored funding makes up 17% of revenue. Revenue generated each year from our education program and research endeavors is not sufficient to fund operations and as such, the University relies on **philanthropy** to fill in the gap. In fiscal year 2022, our current and previous donors

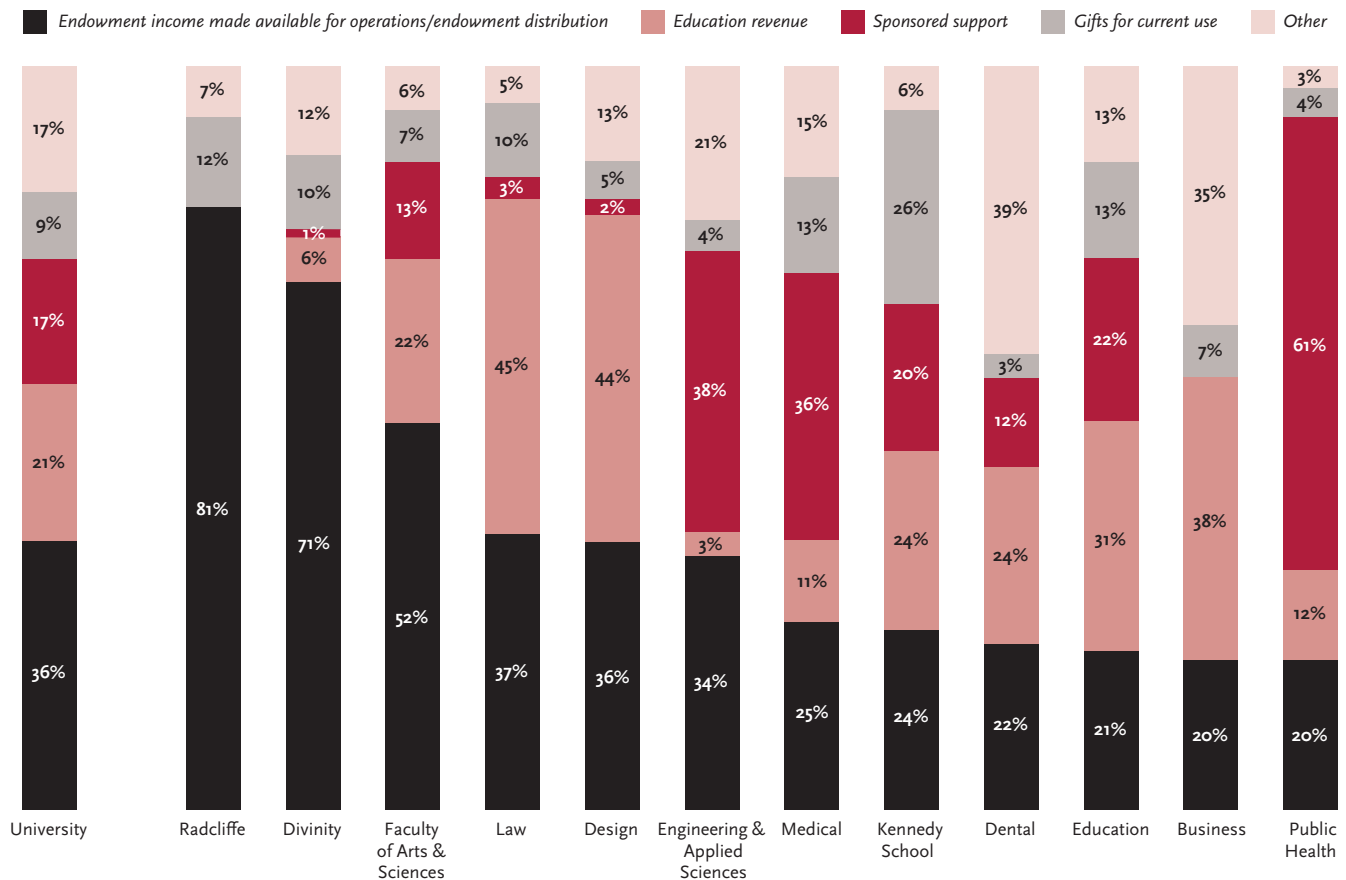
FISCAL YEAR 2022 UNIVERSITY REVENUE SOURCES



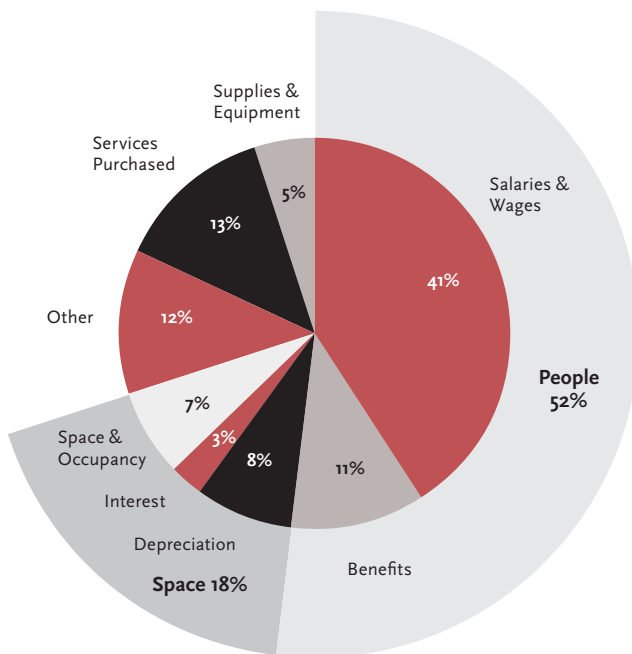
supported 45% of revenue through their generosity and belief in the broad impact of education and research at Harvard.

For Harvard's many schools and units, revenue profiles vary widely, with each drawing a different proportion of its budget from its endowment and other sources.

FISCAL YEAR 2022 SOURCES OF OPERATING REVENUE



FISCAL YEAR 2022 OPERATING EXPENSES



The University's operating expenses increased by \$464 million or 9%, to \$5.4 billion for fiscal year 2022. While spending has rebounded in many areas across the University, overall expense growth lagged revenue growth due to continued pandemic and external market conditions.

Compensation, or people, expenses (i.e., salaries, wages and benefits) represented approximately half of the University's total operating expenses in fiscal year 2022. Salaries and wages increased by 6%, or \$130 million, to \$2.2 billion, resulting from wage increases offset by higher than average levels of position vacancies. Employee benefit expense grew at a muted pace of 1% due to medical costs increasing at a lower rate than before the pandemic, combined with reductions in the long-term cost of our post-retirement health and pension programs.

While non-compensation expense began to rebound, responsible cost management and continued pandemic impacts to programming and purchasing suppressed this growth, keeping some expenses below pre-pandemic levels. Costs for space and occupancy, travel, and supplies and equipment were equal to or below pre-pandemic levels. COVID-related expenditures were down from \$83 million in fiscal year 2021 to \$53 million in fiscal year 2022.

BALANCE SHEET

Investments and endowment

In fiscal year 2022, the return on investments was -1.8% 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) decreased from \$53.2 billion at the end of fiscal year 2021 to \$50.9 billion at the end of fiscal year 2022. More information can be found in the Message from the CEO of Harvard Management Company, found later in this report.

The University has a policy of maintaining liquidity outside of the General Investment Account (GIA). These liquid, short-term investments totaled \$2.2 billion at June 30, 2022 compared to \$1.5 billion at June 30, 2021 (see *Note 2*), well above our minimum policy requirement.

Debt

Bonds and notes payable increased from \$5.5 billion at June 30, 2021 to \$6.1 billion at June 30, 2022, driven by a \$750 million bond issuance during the fiscal year, consisting of \$500 million of taxable bonds and \$250 million of tax-exempt Green Bonds. The tax-exempt borrowing marked the first time the University issued bonds with a Green designation, reflecting the University's long-standing sustainable building principles in alignment with the Climate Bond Initiative. The University maintained its AAA rating by S&P Global Ratings and Aaa by Moody's Investor Services.

Fixed assets

The University resumed capital projects that had been curtailed as a result of the COVID-19 pandemic however, though supply chain and construction labor shortages have continued to delay schedules and spending. The University invested \$356 million in capital for fiscal 2022 compared to \$410 million in fiscal year 2021. The current challenges facing the construction industry are expected to continue into fiscal year 2023.

Significant progress was made on major projects including the completion of Swartz Hall, a donor funded renewal of Harvard Divinity School's main campus building which utilized the University's Healthier Building Materials Academy to build a new multifaith space and modernized classrooms to help facilitate a sense of community as students return to campus. In addition, the Reginald F. Lewis Law Center, a newly renovated space, will serve as a living laboratory for world-class research, learning, and innovation, opened its doors on Harvard Law School's campus in January 2022.

SUSTAINABILITY GOALS

The challenge of climate change demands a bold response and clear action from organizations and individuals. Harvard is committed to transitioning away from fossil fuel use by accelerating solutions that enhance public health and equity, improve building efficiency, and promote new renewable energy. Our entire community of students, faculty, and staff are taking critical action on climate change by advancing cutting-edge research and translating research into action on campus.

Fossil Fuel-Free by 2050 and Fossil Fuel-Neutral by 2026

Harvard was one of the first organizations to announce in February 2018 a goal to eliminate the use of all fossil fuels to heat, cool, and power buildings

and vehicles on our campus by 2050 along with a short-term goal to be fossil fuel-neutral by 2026 as a bridging strategy. The University's climate action plan, including its [roadmap to achieve the interim 2026 goal](#), uniquely addresses both greenhouse gas emissions (GHG) and health impacts from air pollution caused by fossil fuels.

Endowment Net Zero by 2050

Harvard has pledged to make its endowment net zero of greenhouse gases by 2050. This commitment was a first among university endowments and adheres to the timeline set by the Paris Agreement. In fiscal year 2022, Harvard Management Company's operations became carbon neutral.



PHOTO: BRAD FEINKNOFF
The **Science and Engineering Complex (SEC)** opened in fall 2020 and is home to the Harvard John A. Paulson School of Engineering and Applied Sciences (SEAS). The 544,000-square-foot building is certified Leadership in Energy and Environmental Design (LEED) Platinum and is the largest building and first research laboratory globally to receive Living Building Challenge Materials, Equity, and Beauty Petal certification.



The **2022 Climate Change Solutions Fund** awarded **\$1.3 million** in research grants to Harvard faculty and students who are advancing solutions to reduce the risks of climate change, diminish its impacts on the environment, and hasten innovation that will support cleaner energy and a greener world.



The new groundbreaking **Salata Institute for Climate and Sustainability**, launched in fall 2022, will advance and catalyze research programs across all of Harvard's Schools and enable comprehensive cross-University education in climate and the environment. The institute is made possible by a \$200 million gift to Harvard from Melanie and Jean Salata.



In spring 2022, Harvard issued **\$250 million of green bonds** to fund sustainable capital projects, including the recently constructed Science and Engineering Complex, renewal of Adams House, and renovation of the Soldiers Field Park housing complex.



James H. Stock, the Harold Hitchings Burbank Professor of Political Economy with the Faculty of Arts and Sciences and member of the faculty at Harvard Kennedy School, was named the **inaugural Vice Provost for Climate and Sustainability** in fall 2021 to advance the University's climate research and its global impact.



More than **30 percent of Harvard's bus fleet is now electric** after the University purchased four 100 percent electric buses and electric infrastructure to replace four, similarly sized bio-diesel powered vehicles. The transition to electric power is expected to lower greenhouse gas emissions by more than 220,000 pounds annually while reducing air and noise pollution.

EDUCATION

In fiscal year 2022, across its 12 schools, Harvard enrolled 25,110 students from around the globe, including 7,095 at Harvard College.

Total education revenue

Student income increased \$335 million or 38% to \$1.2 billion in fiscal year 2022. Revenue from traditional student programs (undergraduate and graduate) grew by \$113 million or 26% as students returned to campus for the 2021-2022 school year after taking advantage of prior year deferral policies, allowing them to pause their course of study during the pandemic. Board and lodging revenue of \$200 million grew 187% as students fully returned to campus for the academic year. Financial aid applied to student income increased \$70 million or 16% to \$506 million in fiscal year 2022. Net executive and continuing education totaled \$469 million, rebounding \$91 million or 24% after the substantial impact of the COVID-19 pandemic on the prior two years with program cancellations and enrollment declines.

Undergraduate and graduate programs and financial aid

Harvard is committed to cultivating a diverse community of bright and talented students regardless of their ability to pay. Thanks to our robust financial aid program, approximately 55% of Harvard College students receive need-based scholarships and pay an average of \$16,100. Additionally, over 20% of these Harvard College students pay nothing to attend. Since launching the Harvard Financial Aid Initiative in 2004, the College has awarded over \$2.8 billion in grant aid, and the undergraduate financial aid budget has nearly tripled from \$80 million in 2005 to \$225 million in 2022. The average net cost of attendance for all Harvard College students is \$41,148.

Approximately 94% of dollars supporting student financial aid at Harvard come from institutional sources, including gifts, the endowment and unrestricted funds. The other 6% comes from the federal government aid initiatives and other outside sponsors.

Expanding access

In recent years, Harvard College significantly expanded financial aid, first, by eliminating the expectation that students contribute from their summer earnings, and in 2022-23 by expecting a '\$0 parent contribution' from all families making under \$75,000. In addition to the aid described above, Harvard also provides funding for low-income students to pay for health insurance, emergency expenses, event fees, and other activities in order to ensure that students can participate fully in the Harvard experience. First-year students from families making under \$75,000 also receive a \$2,000 start-up grant.

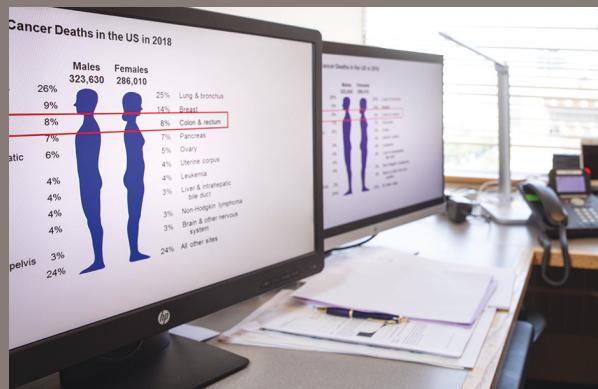
Over the past decade, the University has continuously worked to extend a Harvard education to audiences beyond the traditional on-campus undergraduate and graduate student. In 2021, Harvard Online enrolled over 7.6 million unique learners worldwide in courses created by Harvard faculty, and nine of our twelve schools offer professional education programs for both individuals and organizations. These programs reach learners in every corner of the globe, helping them achieve their personal and professional potential.

In Fall 2021, Harvard and MIT created a new nonprofit that focuses on closing the learning and opportunity gap for millions of learners through the development of new educational partnerships, digital tools, and learning strategies. The nonprofit was created using the proceeds of the sale of the online course provider edX to 2U, a leader in education technology. The new nonprofit plans to devote significant resources to forging partnerships with institutions of higher education, particularly community colleges and other educational institutions that serve under-resourced communities. It also seeks to partner with other nonprofit organizations to tackle longstanding inequities in education, and with enterprises and governments to address workforce reskilling needs, while advancing learning experience platforms and research in all these areas.

RESEARCH

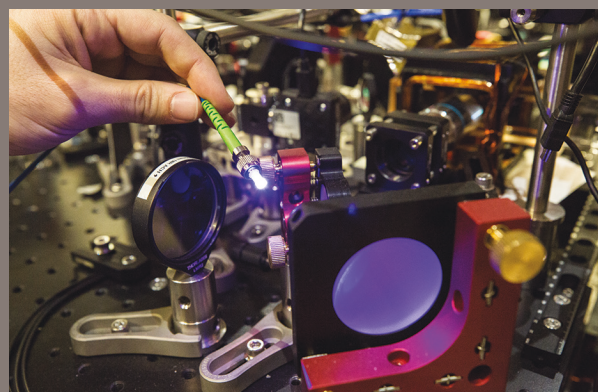
Harvard scholars conduct research in almost every field, seeking to expand human knowledge through analysis, innovation, and insight. In 2022, research was supported by \$976 million of sponsored research funds. In addition, the University funded \$384 million in University funds, as submitted in the 2021 National Science Foundation Higher Education and Research Development (HERD) Survey. Research is carried out both in the departments of the schools and at more than 100 research centers, on campus and around the world. Researchers include faculty members, visiting scholars, post-doctoral fellows, and graduate and undergraduate students, and they collaborate with colleagues across the University, at affiliated institutions, and at other research institutions.

During fiscal year 2022, the University saw continued growth in research funding. In aggregate, revenue from federal and non-federal sponsored sources increased by \$49 million or 5%. Federal funding, which accounted for approximately 66% of total sponsored revenue in fiscal year 2022, increased \$17 million or 3% to \$642 million. The University's relationships with corporations, foundations and other non-federal sponsors expanded in fiscal year 2022, resulting in a \$32 million or 11% increase in non-federal sponsored revenues, which totaled \$334 million. Nonfederal funding continues to be an area of growth, as researchers diversify their research funding support. In addition, Harvard devotes significant institutional resources to leverage these federal and non-federal investments. This funding is crucial to support the initial development or early-stage research which enables the researchers to develop an idea to a state in which it can be presented to sponsors for additional funding, as well as other uses including seed funding large new initiatives, subsidizing projects with external funding, and supporting faculty to venture into new areas of scientific inquiry.



DEPLOYING ARTIFICIAL INTELLIGENCE AGAINST CANCER

Gastroenterologists at Harvard Medical School and Beth Israel Deaconess Medical Center used an AI-based computer-vision algorithm to backstop physicians looking at colonoscopy scans and found they lessened the chance a doctor would miss a potentially cancerous polyp by 30 percent. Across the University, researchers, faculty, and students are working to improve algorithms, boost computing power, and push the boundaries of what AI can do. The newly launched Kempner Institute for the Study of Natural and Artificial Intelligence is one University-wide initiative in this space, bringing together the fields of neuroscience and AI to enhance our understanding of how humans think.



NEW APPROACH MAY HELP CLEAR HURDLE TO LARGE-SCALE QUANTUM COMPUTING

A team of Harvard-led physicists, which includes collaborators from QuEra Computing, MIT, and the University of Innsbruck, has developed a new approach for processing quantum information that shuffles atoms in mid-computation, allowing for the self-correction of errors. This approach marks a major step toward the goal of building large-scale machines that leverage the unique characteristics of quantum mechanics to bring about real-world breakthroughs in material science, communication technologies, finance, and many other fields.

PHILANTHROPY

Combining gifts for current use and Harvard's endowment distribution, philanthropy accounts for 45% of fiscal year 2022 revenue. Every gift helps Harvard continue to be a leading force for progress in the world, enabling excellence in our teaching and research mission, recruiting and retaining our worldclass faculty, helping students thrive, and providing greater access through financial aid.

Gifts for current use

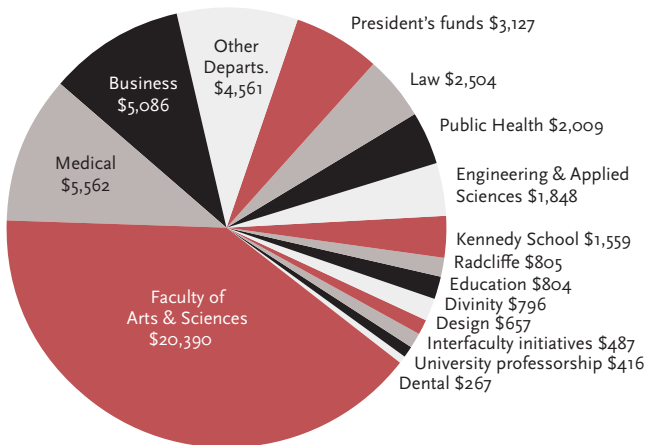
In fiscal year 2022, Harvard received current use gifts from alumni, foundations, and others totaling \$505 million, representing approximately 9% of operating revenues. Support for the University comes from donations of all sizes; more than 75% of gifts in fiscal year 2022 averaged \$155 per donor.

The Harvard endowment

Harvard's endowment has existed for nearly four centuries and belongs to current and future generations of Harvard students, faculty, and researchers. The aggregate endowment is made up of more than 14,000 individual endowments that support nearly every aspect of the University's work, from student financial aid to neighborhood programs, from museum and library preservation to campus activities, from faculty and fellow positions to scientific advancement.

MARKET VALUE OF THE ENDOWMENT AS OF JUNE 30, 2022

In millions of dollars



TOTAL MARKET VALUE \$50,878

Donor contributions to the endowment have enabled leading financial aid programs, groundbreaking discoveries in scientific research, and hundreds of professorships across a wide range of academic fields. Each year, a portion of the endowment is paid out as an annual distribution to support the University's annual operations. In any given year, the University aims to maximize what we can responsibly draw, while balancing both current and future needs. Guided by this principle of intergenerational equity, Harvard's endowment is carefully managed in order to ensure that future generations will enjoy its benefits just as much as the current one.

Cash gifts to the endowment were \$584 million in fiscal year 2022 compared to \$465 million in fiscal year 2021.

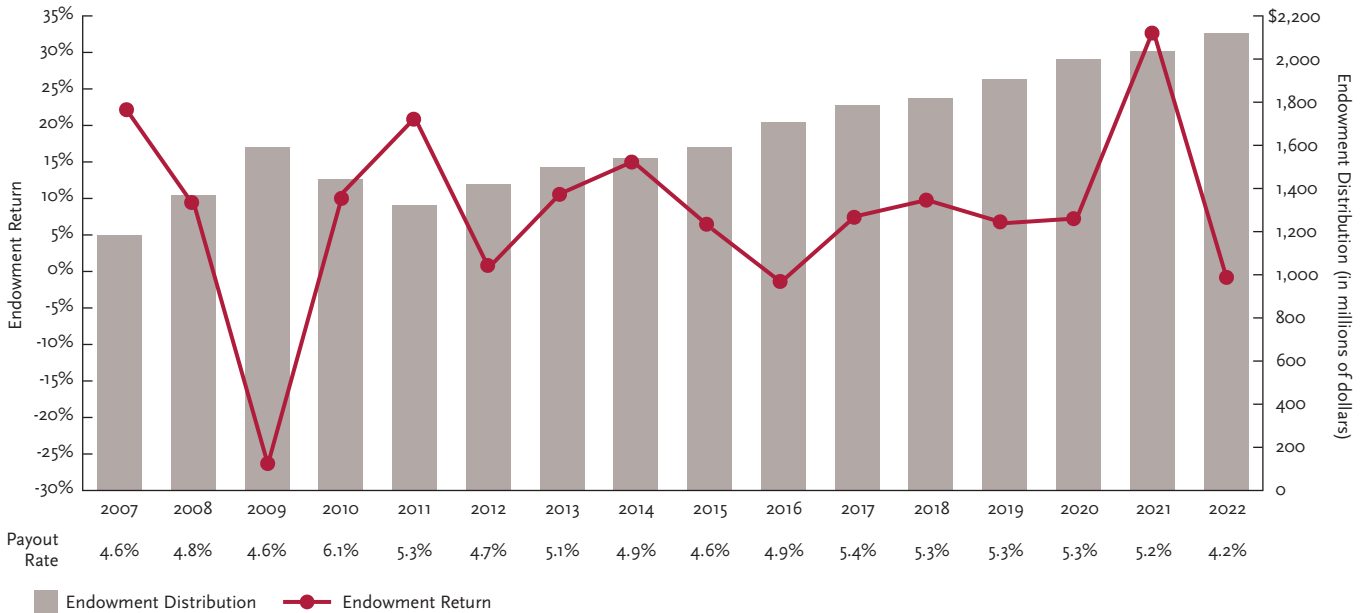
Endowment returns made available for operations

The University's endowment spending practice has to balance two competing goals: the need to fund the operating budget with a stable and predictable distribution, and the obligation to maintain the long-term value of the endowment. There is a common misconception that endowments, including Harvard's, can be accessed like bank accounts, used for anything at any time as long as funds are available. In reality, Harvard's flexibility in spending from the endowment is limited by the fact that it is designed to last forever, which is crucial for an institution intended to serve generations of students and pursue research on questions that cannot be answered in one lifetime.

Harvard is obligated to preserve the purchasing power of the endowment by spending only a small fraction of its value each year. Spending significantly more than that over time, for whatever reason, would privilege the present over the future in a manner inconsistent with an endowment’s fundamental purpose of maintaining intergenerational equity. As a general rule, Harvard targets an annual endowment payout rate of 5.0 to 5.5% of market value. The actual payout rate varies each year based on endowment returns. For example,

following extraordinary endowment returns in FY21 of 33.6% that served to boost the endowment’s market value, the payout rate (i.e., the annual distribution as a percent of market value) fell, despite the fact that the annual distribution increased. This critical source of funding distributed \$2.1 billion in the fiscal year ending June 30, 2022—representing 36% of Harvard’s total operating revenue—and is the single largest source of revenue supporting the University.

ENDOWMENT RETURNS MADE AVAILABLE FOR OPERATIONS BY YEAR



Endowment payout

While the endowment is a critical source of funding, 70% of the annual distribution is directed to specific programs, departments, or purposes and must be spent in accordance with the terms set forth by the donor. Funds without donor restriction are more flexible in nature and are critical in supporting structural operating expenses and transformative, strategic initiatives. In this way, the endowment bridges the gap between revenue that is brought in from tuition and research grants, and the critical costs associated with the University’s teaching and research activities.

ENDOWMENT SPENDING FLEXIBILITY

