

Financial Overview

From the Vice President for Finance and the Treasurer

This was a fiscal year marked by significant changes, both within the University and across the broader higher education landscape. Leadership transitions marked major turning points within Harvard, with the departures last year of President Larry Bacow, Executive Vice President Katie Lapp and Vice President for Finance and Chief Financial Officer Thomas Hollister. Their farsighted leadership helped make Harvard stronger, by every financial metric, than at any point in its history. We are grateful to each of them for their indelible and enduring contributions.

Outside of Harvard, fiscal year 2023 was characterized by changes no less profound. Volatility in the capital markets and rapidly rising interest rates—intended to curb even more rampantly rising inflation—led to three bank failures, among the largest in the country’s history; climate change catalyzed record heat and accelerating wildfires across the globe; the Supreme Court challenged the way in which we conduct admissions in our efforts to ensure a diverse class; and the potential of generative artificial intelligence, both propitious and perilous, erupted into the collective consciousness. The impacts from each promise to be profound.

Amidst this swirl of change, Harvard’s commitment to excellence, opportunity, and impact remained steadfast. The University generated an operating surplus of \$186 million or 3% of revenue, lower than last year’s surplus of \$406 million. This was driven by purposeful investments in the mission and the resurgence of expenses related to full campus operations, as well as inflationary pressures. This more modest operating margin is characteristic of the University’s results prior to the pandemic.

Careful stewarding of resources over the past several years made it possible to advance our pursuit of academic excellence, expand our commitment to opportunity and access, and initiate new programs to

address society’s most vexing challenges. This year, the University welcomed its inaugural cohort of PhDs in quantum science, pioneers at the academic frontier. Harvard College raised the income threshold for cost-free attendance to \$85,000, allowing an estimated 25% of undergraduate students to attend for free. And ongoing investments in initiatives, including Harvard and the Legacy of Slavery and the launch of the Axim Collaborative, call on Harvard to reckon with the past while reimagining learning for the future.

These commitments to academic excellence and opportunity would not be possible without our donors, past and present. Distributions from the endowment totaled \$2.2 billion or 37% of total revenue for the year. An additional 8% of revenue came in the form of current gifts. Donors’ generosity allows Harvard to advance mission-critical priorities. We are enormously grateful for their steadfast support.

While we rightly celebrate these achievements, we must acknowledge the financial challenges that lie in wait. On the heels of the most substantial interest rate tightening cycles since the 1970s, the cost of capital is anticipated to remain elevated, which may impact future investment returns. The end of the era of economic expansion, which we have written about in previous letters, may be upon us.

Indeed, while we are deeply appreciative of the capable navigation of complicated markets by CEO Narv Narvekar and his colleagues at Harvard Management Company, the 2.9% return on the endowment this year is below our long-term target return of 8%. Narv expressed caution about forward-looking returns in private portfolios last year, noting that “private managers have not yet marked their portfolios to reflect general market conditions.” Accordingly, this year, the disparity between the public and private markets continued, this time as private markets lagged on the upside.

We must be judicious in the way we access the endowment to support our operations, as it is not a checking account, but rather must be managed to support both current and future generations of students and scholars. Nevertheless, the endowment distribution increased by 4.5% in fiscal year 2023 and is budgeted for the same level of growth for fiscal year 2024. As stewards of the endowment, our focus is on both supporting the University today, as well as ensuring a consistent level of support in the future, a task that will be complicated by a potential low growth economic environment.

This backdrop is exacerbated by the reality that the costs of running a world-class university—of ensuring the resilience and accessibility of our buildings, of eliminating greenhouse gas emissions from our campus footprint as we collectively address climate change, of expanding access and affordability—continue to increase. Overall expenses rose 9% this fiscal year, double the increase in revenue.

This is not sustainable. Our pace of spending cannot continue unabated without a commensurate increase in revenue. Yet as we have discussed in prior years' letters, traditional sources of higher education revenue face significant constraints. Looking forward, we must respond prudently, by prioritizing activities which most consequentially contribute to our mission, and by identifying and operationalizing ways to use our financial, physical, and technological resources more effectively.

Even with these challenges on the horizon, Harvard's finances remain strong. The University's net assets, a fundamental measure of our resources, increased year-over-year. Schools and units continued to build reserves to help mitigate the impact of future constraint and support new investments. Harvard added only modest new debt in fiscal year 2023 and invested over \$500 million in renewing and improving our physical plant.

In closing, we want to thank each and every donor to the University—past and present—for making Harvard's excellence in teaching and research possible through your philanthropy. We want to thank Harvard's faculty, students and staff for revitalizing the campus following the pandemic, and for your vital contributions, on a daily basis, in making Harvard one of the world's preeminent institutions. We also want to extend a warm welcome to Harvard's 30th President, Claudine Gay, along with the University's new deans. Together, we are committed to advancing academic excellence and sustaining the farsighted stewardship that has been the gift of generations before us.



Ritu Kalra
VICE PRESIDENT FOR FINANCE



Timothy R. Barakett
TREASURER

September 2023

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 2023 included in this report demonstrate the University's continued commitment to advancing these priorities.

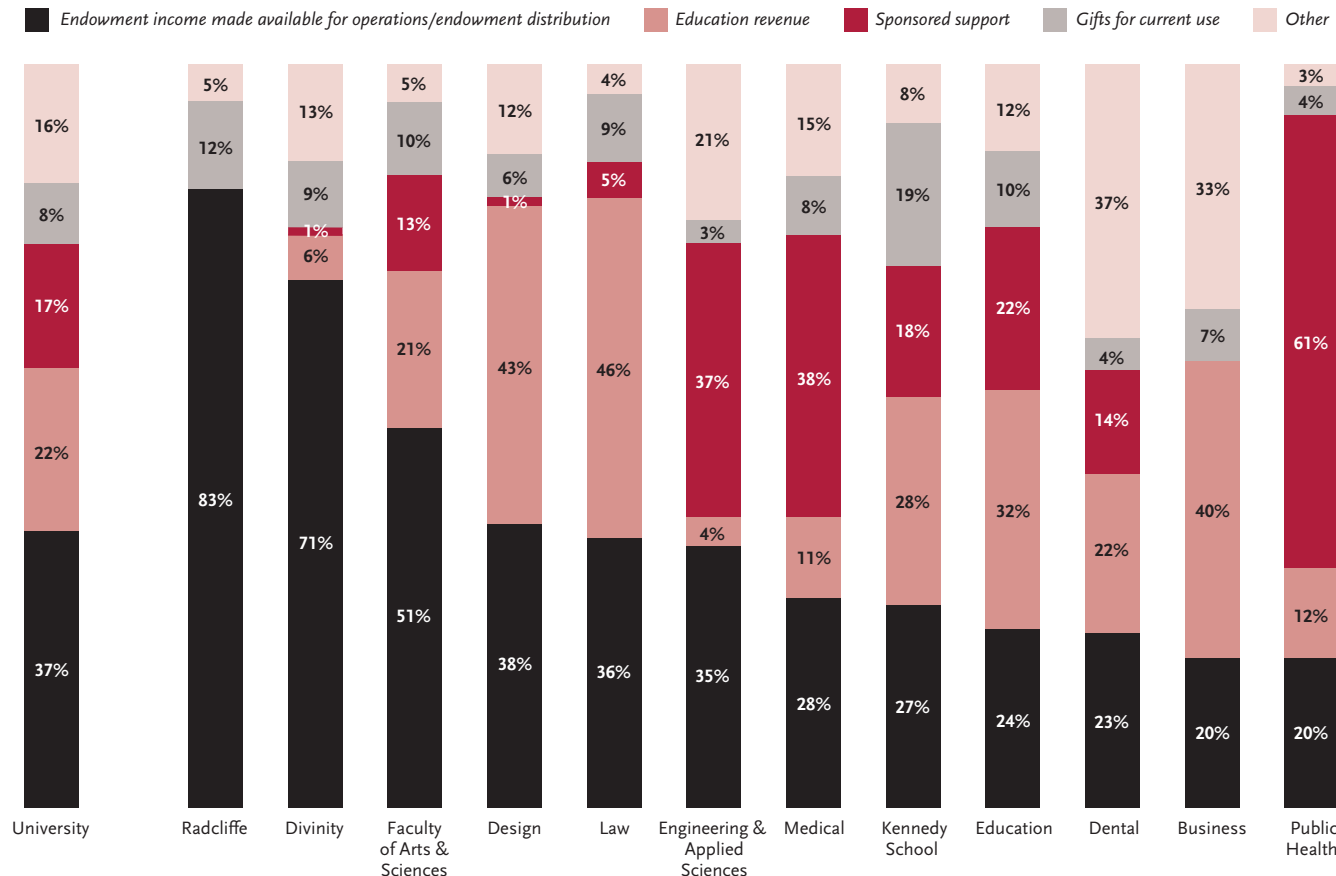
FINANCIAL OVERVIEW

The University ended fiscal year 2023 with an operating surplus of \$186 million compared to \$406 million in fiscal year 2022, on an operating revenue base that increased 5% or \$262 million, to \$6.1 billion. The reduced surplus was not unexpected and was driven primarily by expenses associated with renewed return to campus activity and strategic investments in our workforce, with increased compensation for faculty and staff, a decrease in vacancy rates, and overall growth in new workers across campus.

OPERATING REVENUES

The revenue profiles of Harvard's many schools and units vary widely, as each draws a different proportion of its budget from these primary sources as depicted in the following table:

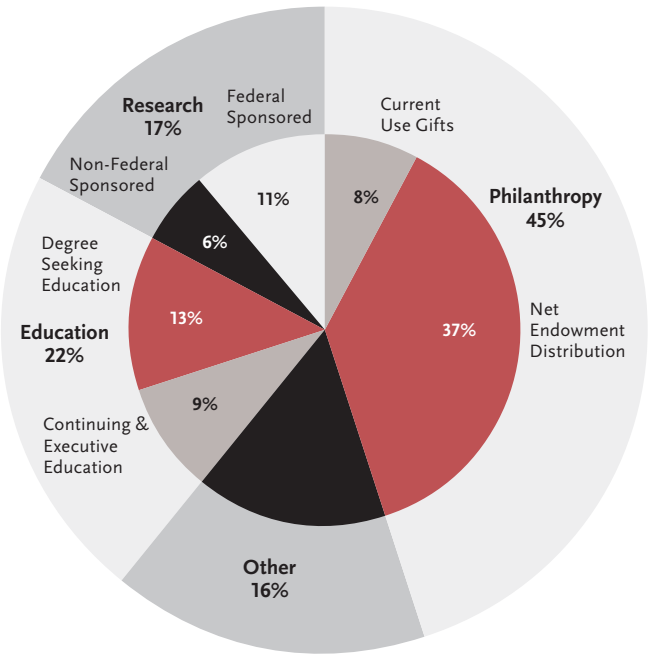
FISCAL YEAR 2023 SOURCES OF OPERATING REVENUE



Harvard’s diversified activities rely on three main sources of revenue: education or tuition, sponsored research, and philanthropy, both past and present.

Total **education** revenue comprised 22% of revenue. This includes tuition and board and lodging income, net of financial aid, from both traditional degree seeking students (undergraduate, graduate, and professional), as well as executive and continuing education learners. In support of **research**, our faculty are awarded external grants by governmental and private partners to advance new academic knowledge; this sponsored funding made 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 2023, support from past and present donors provided 45% of revenue through current use gifts and endowment income, reflecting their generosity and belief in the broad impact of education and research at Harvard.

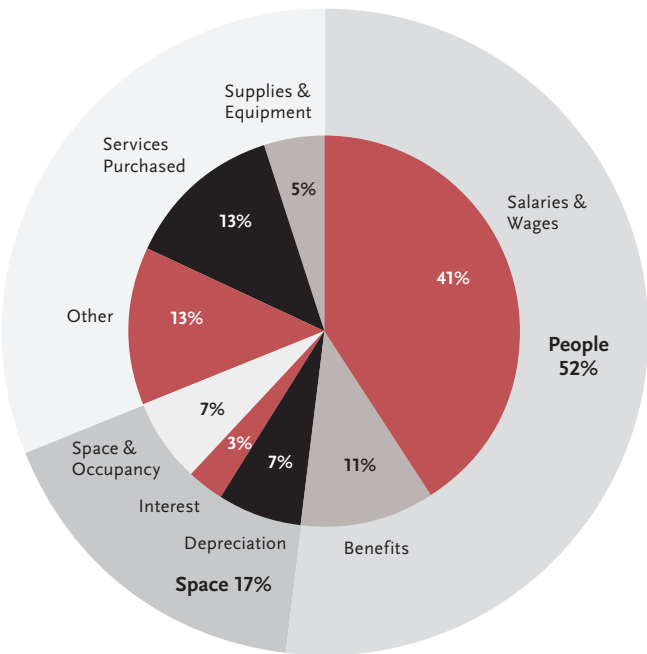
FISCAL YEAR 2023 OPERATING REVENUES



OPERATING EXPENSES

The spending associated with Harvard’s diversified activities also encompass three primary categories, related to the faculty, staff and other **people** who make Harvard’s work come alive; the classrooms, labs and other **spaces** in which their work is done; and the **supplies and services** they use to advance the work.

FISCAL YEAR 2023 OPERATING EXPENSES



The University’s operating expenses increased by \$482 million or 9% to \$5.9 billion for fiscal year 2023. Spending rebounded in many areas across the University, reflecting both increased campus activity following the pandemic as well as the impact of inflation, with increases in compensation and higher discretionary spending (travel, food, supplies and equipment) leading the growth. Compensation, or **people**, expenses (i.e., salaries, wages and benefits) represented more than half of the University’s total operating expenses in fiscal year 2023. Salaries and wages increased by 10% or \$215 million, to \$2.4 billion. This growth stemmed from wage increases, as well as an investment in new faculty and staff across campus. These new positions were the result of both filling open positions as well as targeted growth in key initiatives. Employee benefit expense grew 8% or \$44 million, in line with salaries and wages.

As pandemic restrictions continued to ease, expenditures related to **space** as well as discretionary costs both rebounded in fiscal year 2023. University-wide space costs grew by 11% or \$40 million, with the resumption of campus-based activity and an uptick in deferred maintenance projects. Other discretionary spending returned to pre-pandemic levels, largely driven by services purchased (+8% or \$59 million) and travel (+114% or \$50 million).

BALANCE SHEET

Investments and endowment

The return on the endowment in fiscal year 2023 was 2.9%. Its value (after the impact of distributions from the endowment for operations, and the addition of new gifts to the endowment during the year) stood at \$50.7 billion, down from \$50.9 billion at the end of fiscal year 2022. Additional information is available 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 endowment for operating purposes. These liquid, short-term investments totaled \$1.4 billion at June 30, 2023 compared to \$2.2 billion at June 30, 2022 (see *Note 2*), well above our minimum policy requirement.

Debt

Bonds and notes payable increased modestly from \$6.1 billion in fiscal year 2022 to \$6.2 billion in fiscal year 2023, driven by the issuance of \$177 million in commercial paper. Issuances included \$25 million tax-exempt commercial paper for capital spending and \$152 million taxable commercial paper to supplement the University's working capital. The University maintained its AAA rating by S&P Global Ratings and Aaa by Moody's Investor Services.

Fixed assets

The University invested \$512 million in capital for fiscal year 2023 compared to \$356 million in fiscal year 2022. Despite the increase in capital expenditures, the construction market continued to experience challenges in fiscal year 2023 including supply chain disruptions, equipment and construction labor availability, and permitting delays, resulting in subdued spending relative to the projects in the pipeline.

EDUCATION

In fiscal year 2023, across its 12 schools, Harvard enrolled 25,266 students from around the globe, including 7,178 undergraduates at Harvard College.

Total education revenue

Student income increased 9% or \$108 million to \$1.3 billion in fiscal year 2023. Revenue from traditional student programs (undergraduate and graduate) grew by 5% or \$54 million. Board and lodging revenue of \$221 million grew 11% as graduate students continued to return to on-campus housing. Executive and continuing education revenue totaled \$544 million, growing 12% or \$57 million. Financial aid applied to student income increased 5% or \$25 million to \$531 million in fiscal year 2023.

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 for tuition, food and lodging. Since launching the Harvard Financial Aid Initiative in

2004, the College has awarded nearly \$3.1 billion in grant aid, and the undergraduate financial aid budget has nearly tripled from \$80 million in 2005 to \$247 million in 2023. The average net cost of attendance for all Harvard College students is \$42,695.

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

Harvard College has continued its ongoing efforts to expand financial aid by raising the family income threshold in 2023-2024 to \$85,000—a \$10,000 increase from last year's threshold. This change means that an estimated 25% of families do not have to contribute anything to tuition, food or housing. In addition, to ensure that students can participate fully in the Harvard experience, Harvard augments this aid by providing low-income students with funding for health insurance, emergency expenses, event fees, and other activities. First-year students from families making under \$85,000 also receive a \$2,000 start-up grant.

INCREASING ACCESS TO HARVARD

Harvard University's commitment to expanding access to opportunities includes not only access to world-class learning and research resources, but also ensuring that we are a community where everyone has the support to grow and succeed. Over the last year, we've advanced this commitment in many ways, including opening the doors wider to our museum collections through free admission for everyone at the Harvard

Art Museums and expanding high-quality learning opportunities that go beyond the traditional classroom walls. The increased access is further supported with resources to strengthen intellectual, emotional and physical wellbeing by, for example, expanding our digital accessibility policy and adding new student mental health services and resources.



Harvard College is committed to ensuring that all admitted students have the opportunity to attend Harvard, regardless of the economic obstacles they have encountered. Harvard launched the **Harvard Financial Aid Initiative** in 2004 to enhance this effort and to raise awareness of college affordability for students interested in all kinds of colleges and universities. The income threshold for cost-free attendance rose to \$85,000, an increase of \$10,000 from the prior year.



As part of its ongoing efforts to ensure the accessibility of its digital systems and communications, Harvard revised its **Digital Accessibility Policy** so that all new digital content designed and developed by Harvard schools, units, and departments after June 1, 2023, should aim to be accessible to people with disabilities. The University's initial Digital Accessibility Policy, which was put into place in 2019, focused on expanding access to Harvard's knowledge, information, and learning opportunities for audiences outside the University. Improving the accessibility of internally facing content and applications is an important next step toward making Harvard a more welcoming and inclusive place for everyone.



For students on tight budgets, a job interview can bring the thrill of starting a new chapter and the dread of locating work-appropriate apparel. To meet this need, Travis Johnson '24 and LyLena Estabine '24, launched the **Crimson Career Closet (CCC)**, a brightly colored space on the 10th floor of the Smith Campus Center where students preparing for job interviews can borrow suits, dresses, and accessories for free. Currently, the CCC has five racks of clothes, mostly donated from faculty, and hopes to expand the donor base to alumni and classmates with support from the Office of Career Services.



Axim Collaborative, previously known as the Center for Reimagining Learning, is a nonprofit started by Harvard and MIT that aims to make learning effective, accessible, and relevant to a diverse audience of learners and institutions. In June, Axim Collaborative launched its partnership with the United Negro College Fund and Harvard to support the development of HBCUv, a platform that will provide digital learning capabilities tailored to the specific needs of HBCUs and the communities they serve. HBCUv is intentionally designed to replicate the learning culture and community for which HBCUs are well known and aspires to be a shared resource open to all HBCUs and enable institutions to share knowledge, resources, and best practices.



In June, the **Harvard Art Museums announced a new free admission policy for all visitors**. This represents a significant expansion of free access to the museums' collections, exhibitions, and research for public audiences, and ensures that every campus visitor will have the opportunity to view and engage with the important collections in the Harvard Art Museums' care.



Nearly 40 Allston-Brighton students in grades 2-8 immersed in hands-on activities this summer through the Harvard Ed Portal's **Summer Explorations program**. Now in its seventh year, the program offers Allston-Brighton students free, weeklong courses designed to keep them engaged in learning during the school break. Among this year's highlights: students got a chemistry lesson by rolling out, frying, and fermenting Ukrainian flatbread ingredients in "Science of Cooking." Some learned about bones via "Ins and Outs of Skeletons," held at the Harvard Museum of Natural History. Others took to the stage in "Creative Drama: Ocean Explorations," led by staff of the American Repertory Theater.

RESEARCH

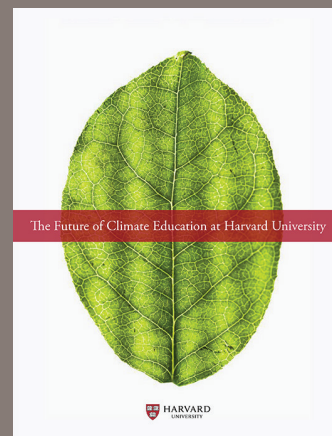
Harvard scholars conduct research in almost every field, seeking to expand human knowledge through analysis, innovation, and insight. In 2023, research was supported by \$1 billion of sponsored funds. In addition, the University funded \$416 million of research through University funds, as submitted in the 2022 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 2023, the University saw continued growth in research funding. In aggregate, revenue from federal and non-federal sponsored sources increased by 5% or \$50 million. Federal funding, which accounted for approximately 66% of total sponsored revenue in fiscal year 2023, increased 5% or \$34 million to \$676 million. This includes a one-time grant from the Department of Homeland Security, provided through the Massachusetts Emergency Management Agency, for \$25 million to reimburse the University for Covid-19 related expenses incurred in prior fiscal years.

The University's relationships with corporations, foundations and other non-federal sponsors expanded in fiscal year 2023, resulting in a 5% or \$16 million increase in non-federal sponsored revenues, which totaled \$350 million. Non-federal 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 provides crucial incubation to early-stage research ideas before they are ready to be presented to sponsors for additional funding, seeds new initiatives, subsidizes projects with insufficient external funding, and supports faculty to venture into new areas of scientific inquiry.

REDESIGNING HOW TO TEACH CLIMATE CHANGE

In September 2022, the Committee on Climate Education released "[The Future of Climate Education at Harvard University](#)," their analysis on how Harvard as an academic institution could meet the challenges of climate change. The report urges an all hands on deck approach for how Harvard teaches climate change, not only through more but also deeper instruction in disciplines that span the University at a moment of heightened concern about a changing world. The report outlines a series of concrete steps, including hiring additional faculty and establishing a climate education accelerator to foster needed changes, and envisions new courses in every discipline, increased internship and fellowship opportunities, and assistance for faculty in fields not traditionally linked to climate who want to incorporate it in classes.



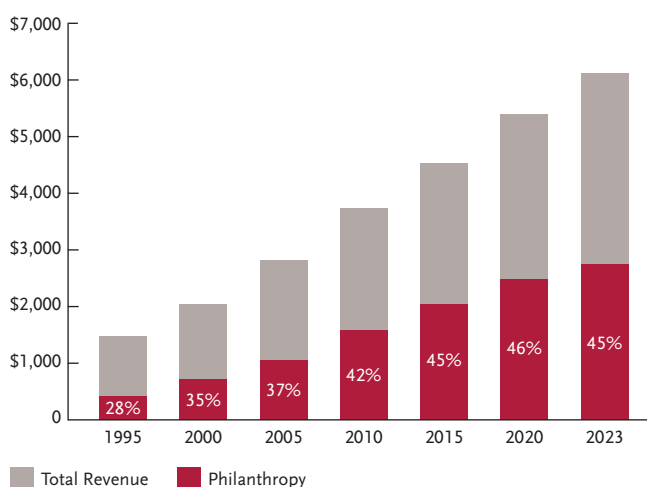
REMOVING CARBON USING NEW ENGLAND'S FORESTS

New England's Climate Imperative, a major report led by a Harvard ecologist, suggests that with a handful of strategies, New England's 32 million acres of forests, which cover about three quarters of the region, could eventually come close to absorbing 100 percent of all the carbon produced by the six states. The report lays out five steps policymakers and conservation non governmental organizations can pursue that can lead to forests absorbing almost 360 million additional tons of carbon dioxide over 30 years. That means New England's forests will be able to absorb virtually all the carbon produced in the region, provided the six states hit their existing emission reduction goals.

PHILANTHROPY

Combining gifts for current use and Harvard's endowment distribution, philanthropy accounted for 45% of fiscal year 2023 revenue. To support the rising cost of sustaining excellence in teaching and research, philanthropic support is increasingly important to colleges and universities—and to keeping college affordable. Excellence and affordability in higher education today rely on philanthropy to support nearly every aspect of university operations. Every gift helps Harvard continue to be a leader for progress in the world, enabling excellence in our teaching and research mission, recruiting and retaining our world class faculty, helping students thrive, and providing greater access through financial aid.

PHILANTHROPY AS A PERCENTAGE OF TOTAL REVENUE OVER TIME



Gifts for current use

In fiscal year 2023, Harvard received current use gifts from alumni, foundations, and others totaling \$486 million, representing approximately 8% of operating revenues. Support for the University comes from donations of all sizes; more than 75% of the number of gifts in fiscal year 2023 averaged \$157 per donor.

The Harvard endowment

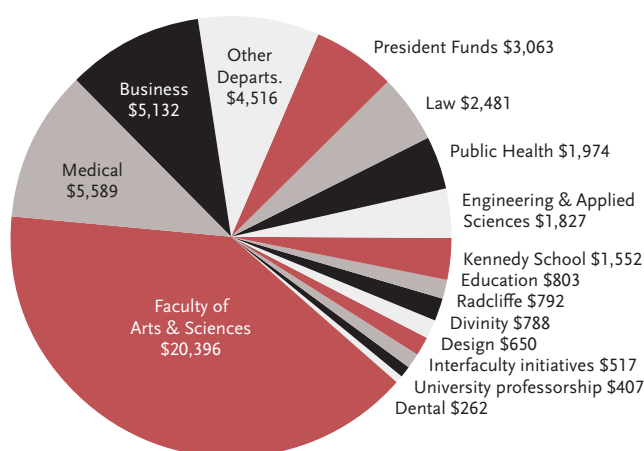
Harvard's endowment has existed for nearly four centuries and belongs to current and future generations of Harvard students, faculty, and researchers. The aggregate endowment is made up of more than 14,000 individual endowments that support nearly every aspect of the University's work, from student financial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

campus activities, from faculty and fellow positions to scientific advancement.

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 it 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 \$561 million in fiscal year 2023 compared to \$584 million in fiscal year 2022.

MARKET VALUE OF THE ENDOWMENT AS OF JUNE 30, 2023
In millions of dollars



TOTAL MARKET VALUE \$50,749

Endowment returns made available for operations

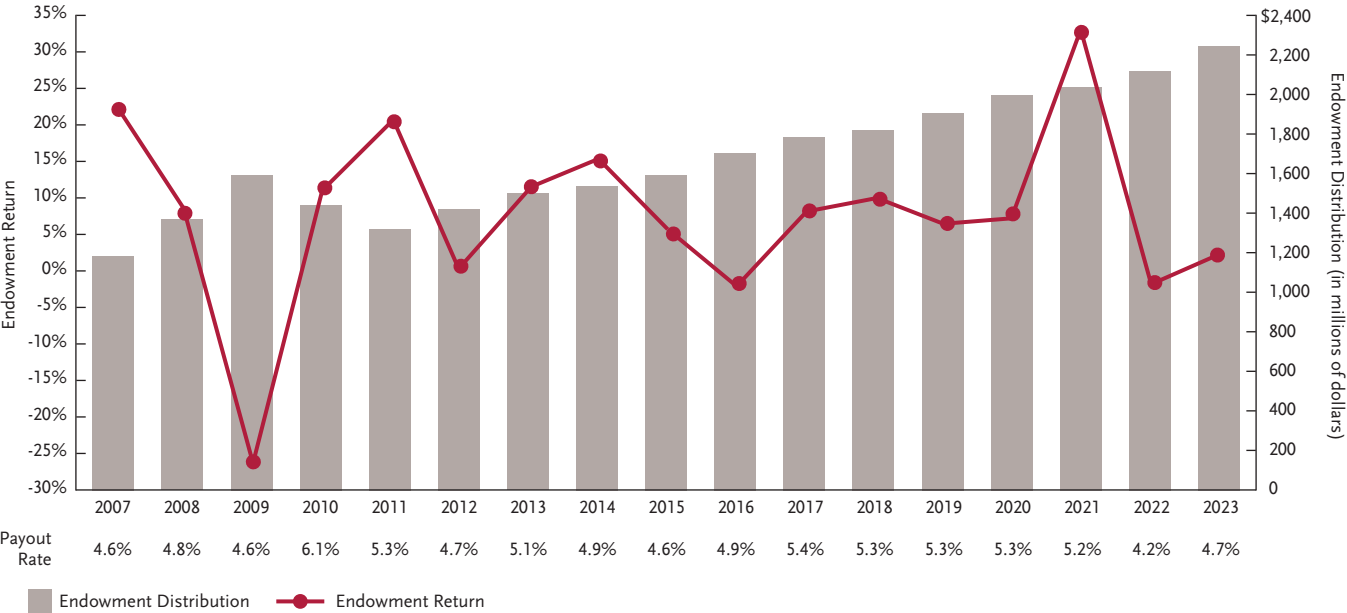
The University's endowment spending practice has to balance two competing goals: the need to fund the operating budget with a stable and sufficient distribution, and the obligation both legally and to our donors to maintain the long-term value of the endowment. There is a common misconception that endowments, 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 conditions established by donors and by the fact that it is designed to last forever, which is crucial for an institution intended to serve generations of students and pursue new knowledge.

Harvard is obligated to preserve the purchasing power of the endowment by spending only a sustainable portion 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. This critical source of funding distributed \$2.2 billion in the fiscal year ending June 30, 2023 — representing 37% 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 from the endowment 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, although are often restricted at a high level such as to one school, 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

