

Financial Overview

From the Vice President for Finance and the Treasurer

Harvard University's teaching and research mission was advanced by healthy financial results during this past year, which enabled increased scholarships and financial aid, University-funded research, investments in faculty and staff, as well as renewed classroom, lab, housing and common spaces.

Please take a moment to read the Financial Overview on pages 5 through 11, to see a more detailed review of how the University's stewardship of financial resources is aimed at advancing teaching, learning, and research priorities to make a positive impact on the world.

The overall strength and financial health of the University depends upon the local management of individual schools and units. The aggregate surplus of \$298 million was made possible by careful stewardship from the leaders of Harvard's schools and units in matching expenditures with revenues. Individual surpluses are earned and retained locally and are being used across the University to further advance mission-related priorities, reduce debt, and build reserve funds for future investments or inevitable "rainy days" to come.

Distributions from the endowment provided \$1.9 billion or 35% of total revenue for the year, and another 9% of revenue came from current gifts of philanthropy. We are enormously grateful to Harvard's past and present donors for their generosity in providing the resources that enable the University's mission and its aspirational pursuit of excellence. We are also very supportive of the constant, painstaking progress in restructuring the endowment portfolio by Narv Narvekar and his colleagues at Harvard Management Company. We encourage you to read Narv's letter on page 12 of this report.

Throughout its history, Harvard has managed through countless different economic circumstances, each presenting unique challenges and opportunities for the University. Our ability to weather these challenges, and emerge stronger thereafter, demonstrates the

University's resilience, cultivated through leadership and careful planning. This diligence in planning strengthens our capacities to manage through challenging times, sustain critical programs today and tomorrow, and maintain momentum for the future. As we monitor the current and unfolding macro environment, there are reasons to be cautious:

- Revenues in higher education are under pressure as the number of students nationally has plateaued, tuition costs have reached limits of affordability, the outlook for Federal research funding is uncertain, and expectations for return assumptions in the investment markets are muted.
- The recently passed Tax Cuts and Jobs Act has imposed new taxes upon, among other things, our endowment and is estimated to cost the University approximately \$50 million this past year. This new burden is approximately equal to 1% of revenues, or viewed in the context of maintaining affordability, less money is now available for University to maintain financial aid, which totaled \$193 million for undergraduates this past year.
- Although large in absolute dollars, Harvard's endowment is fully utilized in supporting current operations (see further discussion on pages 10 through 11). The use of the endowment is restricted to thousands of activities across the University and is managed to last forever. Lastly, contrary to popular perception about wealth, Harvard's endowment size trails other higher educational institutions on a per-student basis due to the size, breadth and diversity of Harvard's schools and students.
- The recent inversion of the interest rate curve and investment market volatility remind us that the current economic expansion, already the longest in United States history, cannot go on forever. Rainy day reserves will be needed.

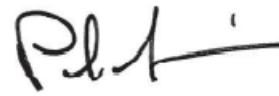
The University has taken several steps in recent years to prepare for the end of the current economic expansion, including reducing debt levels, increasing cash holdings, and strengthening reserves. Schools and units annually prepare rolling-five year financial plans, and are including “downside” scenarios as part of this year’s exercise. The University has learned from history and is preparing for the future with a collective “[Recession Playbook](#)” designed to spark planning and imagine innovative change. We are also focused on educating our community—faculty, staff, students and alumni—on Harvard’s financial model and the risks and opportunities in higher education today.

The wisest thing Harvard can do with its financial resources is to allocate them to maximize excellence in its teaching, research, and scholarship. This is ideally an act of everyday stewardship as times and priorities continuously evolve, and developing the habit of reallocating resources is a successful evolutionary strategy in all economic conditions. In preparing for the next recession, our schools and units will need to focus on academic and research priorities where continuing and increased investment is essential, but also focus on activities where there may be opportunities to limit or reduce scale or scope.

In closing, 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 your philanthropy. We also want to thank Harvard’s faculty and staff for their vital contributions, on a daily basis, in making Harvard one of the world’s preeminent institutions.



Thomas J. Hollister
VICE PRESIDENT FOR FINANCE



Paul J. Finnegan
TREASURER

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