


HARVARD
UNIVERSITY


# Financial Report

## FISCAL YEAR 2021

# Message from the President

I am pleased to submit Harvard University's financial results for fiscal year 2021.

Humanity has paid a hefty toll to the pandemic. Each of us has been affected in different ways, but all of us have had to contend with a world changed by a public health crisis. Through everything, Harvard has remained resilient—financially and otherwise—because of the remarkable efforts of members of our community.

For eighteen months and counting, we have placed the health and safety of people first. Facing declining revenues this past fiscal year, we took steps to control spending while developing and adopting new policies, providing frequent testing and robust contact tracing, and reimagining our shared practices and physical spaces to protect our students, faculty, and staff—an investment totaling more than $83 million. We also continued to pay our idled employees and contract workers at a cost of nearly $60 million. As a result, we were able to avoid the widespread layoffs that were common at so many other colleges and universities. I am pleased to report that almost all of these members of our community are now back to work. These measures also enabled us to continue our teaching and scholarship and to bring a limited number of students back to campus last year. At the same time, we increased support for undergraduate financial aid, making it possible for students to study at Harvard College without the added burden of concerns about affordability.

These necessary efforts directed inward were surpassed by extraordinary efforts directed outward. Since the earliest days of the pandemic, Harvard people have stepped up and stood out—working on the frontlines and saving lives in the ever-shifting landscapes of medicine and science, contributing to vaccination development and deployment, devising ways for learning and working to continue despite disruption, and addressing the profound racial, economic, and social inequities laid bare by the pandemic. Against this stunning backdrop, individuals throughout the University have devoted themselves to meeting the challenge of climate change, to preserving and defending democracy, and to ensuring that higher education in America continues to attract and welcome the most promising individuals to our ranks. At a moment filled with so much doubt and frustration, Harvard has helped to give the world reason to hope. I cannot imagine a better use of our resources.

Ongoing investment in teaching, financial aid, the student experience, and research is made possible by the extremely generous support of our alums and other friends. During a time of disruption and uncertainty, our loyal donors answered the call. An increase in gifts for current use gave us the opportunity to direct funding to areas with the greatest need, and in ways that have made a real impact as we worked to address and abate the pandemic. Our provost, Alan Garber; our executive vice president, Katie Lapp; and I also succeeded in identifying one-time resources to assist our deans in providing more support across our Schools, a mechanism intended to ensure progress throughout the University.

As we continue to adjust to an unpredictable situation, strong financial stewardship has positioned Harvard and our entire community to accelerate progress. Rather than facing budget shortfalls, we can make significant investments that further our mission. Most importantly, we can rest assured that future generations of students, faculty, researchers, and staff will be able to pursue the opportunity and promise that are the hallmarks of our beloved institution.

Lawrence S. Bacow
PRESIDENT

October 2021

# 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.

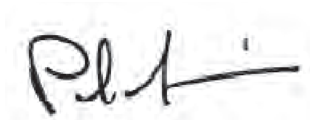
In fiscal year 2022 and beyond, we are focused on the opportunities the pandemic has provided to re-imagine how teaching, learning, research, and work happens — on campus and beyond — to ensure that our financial resources are allocated to areas of highest priority and need.

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.

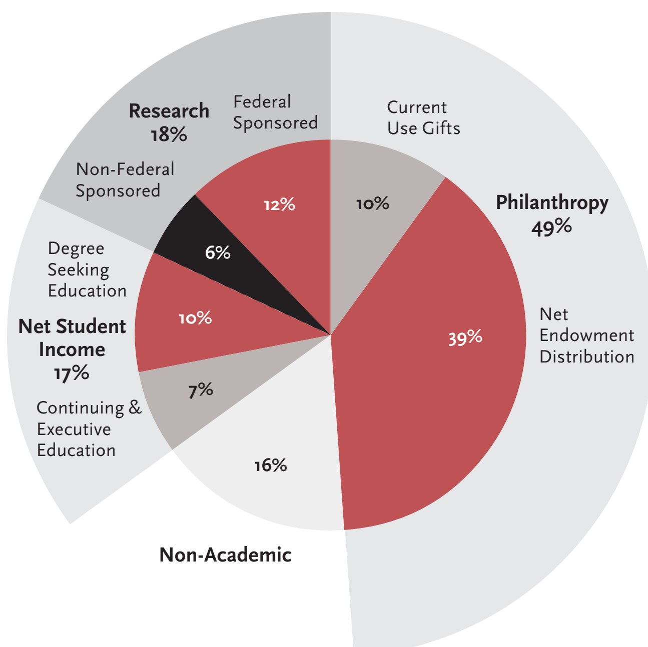
Total net student income decreased 17% to $888 million in fiscal year 2021. Revenue from traditional student programs (undergraduate and graduate) was down $55 million as students took advantage of generous deferral policies to pause their course of study during the pandemic. The University's commitment 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.

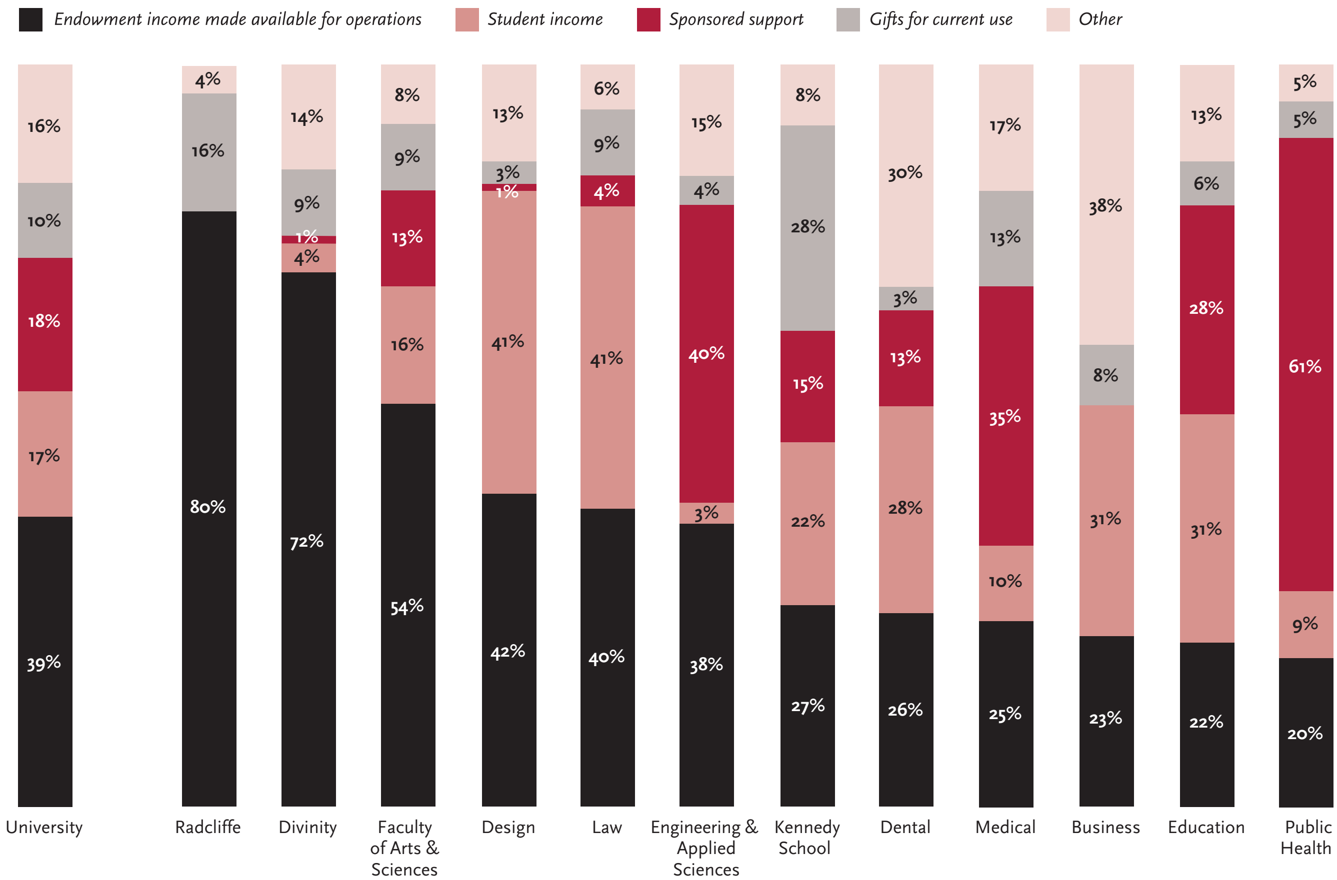
We are grateful to all donors who have continued to support the University's mission during this unprecedented time, with current use giving continuing at record levels. Current use gifts, received from alumni, foundations and others, totaled $541 million, representing approximately 10% of operating 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.

#### FISCAL YEAR 2021 UNIVERSITY REVENUE SOURCES



## FISCAL YEAR 2021 SOURCES OF OPERATING REVENUE

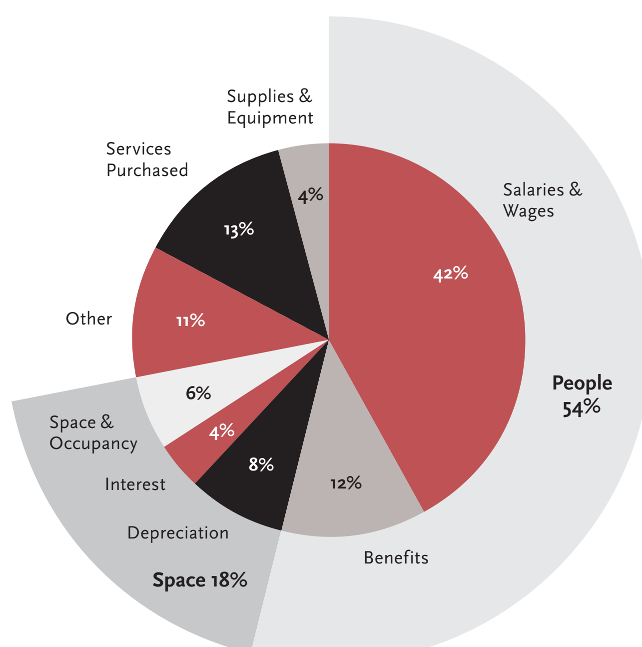



## OPERATING EXPENSES

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%).

## FISCAL YEAR 2021 OPERATING EXPENSES



## 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.

**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.

**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.


**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.

**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.

**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.

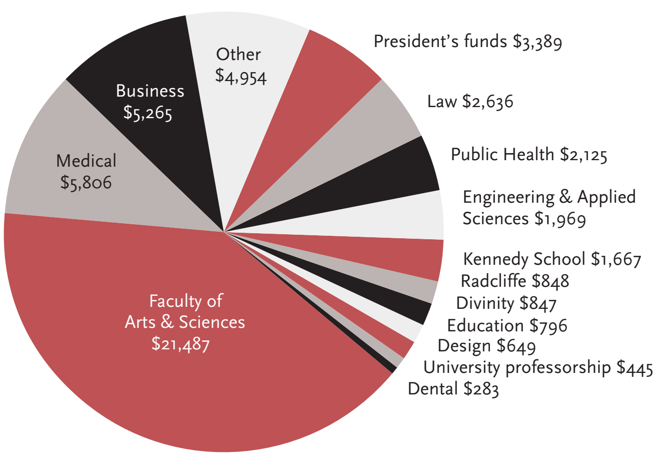
## BALANCE SHEET

### 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)*.

**MARKET VALUE OF THE ENDOWMENT AS OF JUNE 30, 2021**
*In millions of dollars*




**TOTAL MARKET VALUE $53,166**

### 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.

HARVARD MANAGEMENT COMPANY

# Message from the CEO

OCTOBER 2021

Dear Members of the Harvard Community,

For the most recent fiscal year, which ended on June 30, 2021, the return on the Harvard endowment was 33.6% and the value stood at $53.2 billion. The endowment also distributed more than $2 billion toward the University's operating budget, which continues to represent more than one-third of annual revenue.

## Performance

| Asset Class | Allocation | Return |
|---|---|---|
| Public Equity | 14% | 50% |
| Private Equity | 34% | 77% |
| Hedge Funds | 33% | 16% |
| Real Estate | 5% | 13% |
| Natural Resources | 1% | (1)% |
| Bonds/TIPS | 4% | 3% |
| Other Real Assets | 1% | 1% |
| Cash & Other* | 8% | --- |
| **Endowment** | **100%** | **34%** |

**Cash held alongside equity index hedges used to reduce risk.*

Fiscal year 2021 was an extraordinary year. Public and private markets both continued their strong performance, which allowed the endowment to not only increase its distribution to the University, but also continue to grow during this critical time when pandemic-related financial pressures challenge all of higher education.

For each of the last three fiscal years, asset allocation/risk level was a significant determinant of returns—the higher the risk taken, the higher the return generated. The same was true in FY21, with one major difference. During the previous three fiscal years, the impact was measured in a few percentage points. In fact, during that period, HMC's strong alpha generation was enough to overcome the impact of a lower level of portfolio risk. By contrast, the impact of lower portfolio risk this past year was measured in tens of percentage points.

Put another way, given the extraordinarily strong performance of the overall market this past year, a meaningfully higher level of portfolio risk would have increased HMC's returns dramatically.

Specifically, key determinants of returns were:

1. Overall portfolio risk;
2. Venture capital, growth private equity, buyouts, public equity allocations and the directionality of hedge funds (all key expressions of portfolio risk);
3. Historical exposure to specific venture firms and vintage years 2009–2014, which had a dramatic impact upon FY21 returns (due to previous portfolio risk allocations).

## Harvard's Risk Tolerance

During FY21, Harvard enjoyed tremendous returns, but also experienced the opportunity cost of taking lower risk. As readers of previous letters will recall, determining Harvard's risk tolerance (and therefore the appropriate risk in the portfolio) has been a topic actively discussed between HMC and the University, starting with my arrival in December 2016. Over the last decade, HMC has taken lower risk than many of our peers and establishing the right risk tolerance level for the University in the years ahead is an essential stewardship responsibility.

In order to maximize the endowment's returns in support of Harvard's mission, Harvard should take an appropriate amount of risk, subject to some important constraints. The main constraint for any university is its ability to absorb a significant reduction (even if only temporary) in the value of the portfolio and the resulting reduction in distributions critical to the annual operating budget. Furthermore, since most of the highest risk assets are illiquid ones (such as venture capital funds) a major decline in market/portfolio will generally result in a reduction in portfolio liquidity, a potential issue for both HMC and Harvard. How much portfolio risk can and should Harvard tolerate? While this appears to be a simple question, the answer is less obvious.

Accordingly, in 2018 HMC formed a Risk Tolerance group. This group includes board members, Harvard faculty, and colleagues from the Harvard administration, and is led by Jeremy Stein, the Moise Y. Safra Professor of Economics. Professor Stein and Harvard's CFO, Tom Hollister, have led us through an extraordinarily thoughtful analysis and debate, integrating Harvard's financial position, its need for budgetary stability, and its ability to handle more risk. It has been an honor and a great opportunity for HMC team members to be a part of and contribute to these discussions.

The level of portfolio risk is ultimately the most important and fundamental aspect of portfolio construction (reflected in asset/risk allocation) and a critical decision for the University. The findings and recommendations of our collective work will be reviewed carefully in the next several months, with ultimate oversight by the Harvard Corporation, and the decisions will direct and inform our management of the portfolio in the years ahead. I look forward to sharing our evolving thinking on portfolio risk levels in future letters.

We take pride in the fact that a deep dialogue with regards to Harvard's risk tolerance and its implications for HMC's portfolio is occurring. Ultimately, we all seek the appropriate risk level for Harvard, which might well be different from that of other university endowments. We believe that Harvard's financial future is very well served by this process.

## Portfolio Initiatives

As discussed in the past, our portfolio initiatives over the last few years have aimed to:

1. Reduce Natural Resources exposure
2. Reduce Real Estate exposure
3. Increase Private Equity, especially growth and venture exposures
4. Reduce Public Equity exposure
5. Increase Hedge Funds, particularly those with low equity exposure and correlation

These initiatives are essentially completed, given our current risk tolerance level. Notably, the first three initiatives were driven by our investment views. All but the third initiative were also driven by our need to keep the portfolio within its current risk budget while adding to private venture and growth exposure. While reducing public equities proved to be painful in FY21, we needed to do so in order to remain within our portfolio risk budget. Overall, we are exceptionally pleased that we made these asset allocation moves, as they added about 5 percentage points to the FY21 portfolio return as compared to the FY17 allocation. Building a large hedge fund allocation during these past few years was also a way to mitigate risk as we significantly increased our unfunded capital commitments during the private equity and venture capital ramp-up period. This ramp-up period is mostly behind us now, though may go up a bit more should our risk levels increase.

As sophisticated observers are aware, building venture capital portfolios is a multi-year effort for several reasons: vintage year diversification, highly prudent manager selection, and the years it takes for these exceptional managers to competently invest our capital. Perhaps not surprisingly, a very large share of the tremendous gains from venture funds over the last year related to investments made over a decade ago. Therefore, our recent venture investments could take about a decade to bear fruit, though up rounds are happening much quicker today than in normal market periods. We expect an inevitable pullback, but also believe that certain tech and healthcare sectors offer great secular growth opportunities in the longer term.

## Benchmark Relative Performance

As readers of previous letters will understand, we do not regard a focus upon benchmarks as a good way to invest. Nevertheless, I mentioned them in previous letters, and again here, simply as a way to show our early progress and success.

With regards to public markets (Public Equities and Hedge Funds) our four-year outperformance remains excellent—over 400bps on an annualized basis. While equivalent reporting for the private equity side of the portfolio is not yet available for FY21 close, we expect the four-year private equity portfolio benchmark relative performance to continue to be excellent and, therefore, expect that the four-year outperformance for the portfolio in aggregate to remain strong.

## A Word of Caution

As experienced investors understand, Harvard's endowment will not produce 33.6% returns each year. Indeed, there will inevitably be negative years, hence the importance of understanding risk tolerance. Similarly, not every four-year period will generate the excellent benchmark relative performance or the absolute performance HMC has generated. What is more important is that our team, investment process/analytics, organizational structure, culture, and aligned incentives provide HMC with the framework for long-term success.

## Net-Zero Efforts

As we highlighted in HMC's first annual Climate Report, our team is making aggressive progress on three considerable challenges toward the 2050 portfolio net-zero pledge: development of a comprehensive calculation methodology for the portfolio's greenhouse gas (GHG) emissions, data access from a wide range of external managers, and engagement with both asset managers and corporations.

Harvard was the first university to make a net-zero endowment pledge, but others have joined the cause as well. Consultation and collaboration with like-minded institutions will accelerate our efforts and establish standards that accurately reflect the real-world emissions of our investments.

While work on the net-zero portfolio continues, HMC recognizes that our own operations should meet that same standard. Since we believe we can do so well in advance of 2050, HMC became the first endowment office to announce that its own operations will be net-zero, beginning in FY22.

Our team looks forward to sharing more thoughts on both our operational and portfolio net-zero efforts in the annual Climate Report early next year.

## Diversity and Inclusion

Early in FY21, HMC responded to an inquiry from Representative Emanual Cleaver, II and Representative Joseph Kennedy, III regarding diversity among our external asset managers. As we have discussed in the past, this is an issue of great importance to us as we believe that both our organization and our portfolio can only excel if we seek talent from the broadest pool possible. I encourage you to review our responses to their thoughtful questions and know that our efforts to broaden our pipeline of diverse managers and increase our investments with them continues.

## In Closing

Shortly after our last annual report was released, HMC announced that we had completed our five-year organizational transition more than a year ahead of schedule. The changes we enacted, as a team, have drastically reshaped both the way HMC operates and the way we invest. I am tremendously grateful for the hard work that each member of our team has contributed over the past few years. There is certainly more work for us to do and we will always look for ways to improve and adapt HMC and our processes. That said, I truly believe that HMC and the endowment are on a pathway to best serving our singular goal to provide long-term financial stability to Harvard University.

Best regards,

N.P. "Narv" Narvekar
Chief Executive Officer

pwc

**Report of Independent Auditors**

To the Joint Committee on Inspection of the Governing Boards of Harvard University:

We have audited the accompanying consolidated financial statements of Harvard University and its subsidiaries (the "University"), which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of changes in net assets with general operating account detail, changes in net assets of the endowment and of cash flows for the year then ended.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harvard University and its subsidiaries as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

We previously audited the consolidated balance sheet as of June 30, 2020, and the consolidated statements of changes in net assets with general operating account detail, changes in net assets of the endowment and of cash flows for the year then ended (not presented herein), and in our report dated October 22, 2020, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2020 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

Boston, MA
October 13, 2021

PricewaterhouseCoopers LLP, 101 Seaport Boulevard, Suite 500, Boston, Massachusetts 02210
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

## BALANCE SHEETS

*with summarized financial information as of June 30, 2020*

| *In thousands of dollars* | June 30 2021 | June 30 2020 |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | **$ 224,042** | $ 176,615 |
| Receivables, net *(Note 4)* | **322,482** | 262,731 |
| Prepayments and deferred charges | **315,172** | 304,920 |
| Operating leases — right of use assets *(Note 18)* | **689,962** | 754,699 |
| Notes receivables, net *(Note 5)* | **377,596** | 372,234 |
| Pledges receivables, net *(Note 6)* | **2,335,958** | 2,403,175 |
| Fixed assets, net *(Note 7)* | **8,463,008** | 8,435,255 |
| Interests in trusts held by others *(Note 3)* | **515,757** | 427,359 |
| Securities pledged to counterparties, at fair value *(Note 3)* | **290,388** | 214,010 |
| Investment portfolio, at fair value *(Note 3)* | **61,141,750** | 48,111,441 |
| **TOTAL ASSETS** | **$ 74,676,115** | **$ 61,462,439** |
| **LIABILITIES:** | | |
| Accounts payable | **$ 488,896** | $ 321,666 |
| Deferred revenue and other liabilities | **1,716,026** | 1,580,178 |
| Operating lease liabilities *(Note 18)* | **702,872** | 767,599 |
| Other liabilities associated with the investment portfolio *(Notes 3 and 10)* | **756,237** | 878,018 |
| Liabilities due under split interest agreements *(Note 9)* | **1,019,357** | 819,584 |
| Bonds and notes payable *(Note 10)* | **5,503,199** | 5,664,679 |
| Accrued retirement obligations *(Note 11)* | **1,078,647** | 1,216,251 |
| Government loan advances *(Note 5)* | **35,807** | 44,748 |
| **TOTAL LIABILITIES** | **11,301,041** | **11,292,723** |
| **NET ASSETS** | **63,375,074** | **50,169,716** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 74,676,115** | **$ 61,462,439** |

| | Without donor restrictions | With donor restrictions | June 30 2021 | June 30 2020 |
|---|---|---|---|---|
| NET ASSETS: | | | | |
| General Operating Account (GOA) *(Note 8)* | $ 6,588,391 | $ 2,847,600 | $ 9,435,991 | $ 7,677,143 |
| Endowment *(Note 8)* | 9,423,055 | 43,742,698 | 53,165,753 | 41,894,380 |
| Split interest agreements *(Note 9)* | | 773,330 | 773,330 | 598,193 |
| **TOTAL NET ASSETS** | **$ 16,011,446** | **$ 47,363,628** | **$ 63,375,074** | **$ 50,169,716** |

*The accompanying notes are an integral part of the consolidated financial statements.*

## STATEMENTS OF CHANGES IN NET ASSETS WITH GENERAL OPERATING ACCOUNT DETAIL

*with summarized financial information for the year ended June 30, 2020*

| *In thousands of dollars* | Without Donor Restrictions | With Donor Restrictions | For the year ended June 30 2021 | 2020 |
|---|---|---|---|---|
| **OPERATING REVENUE:** | | | | |
| Net student income *(Notes 2 and 12)* | $ 888,284 | | **$ 888,284** | $ 1,070,156 |
| Sponsored support *(Note 13)* | | | | |
| Federal government – direct costs | 442,268 | | **442,268** | 436,552 |
| Federal government – indirect costs | 182,750 | | **182,750** | 179,678 |
| Non-federal sponsors – direct costs | 71,314 | $ 188,239 | **259,553** | 260,739 |
| Non-federal sponsors – indirect costs | 21,573 | 20,543 | **42,116** | 40,552 |
| Total sponsored support | 717,905 | 208,782 | **926,687** | **917,521** |
| Gifts for current use *(Note 14)* | 142,710 | 398,249 | **540,959** | 477,564 |
| Investment income: | | | | |
| Endowment returns made available for operations *(Note 8)* | 378,998 | 1,660,526 | **2,039,524** | 1,998,756 |
| GOA returns made available for operations | 143,788 | | **143,788** | 176,174 |
| Other investment income | 10,751 | 5,166 | **15,917** | 33,305 |
| Total investment income | 533,537 | 1,665,692 | **2,199,229** | **2,208,235** |
| Other revenue *(Note 15)* | 693,915 | | **693,915** | 699,354 |
| Net assets released from restriction | 2,138,218 | (2,138,218) | **0** | 0 |
| **TOTAL OPERATING REVENUE** | **5,114,569** | **134,505** | **5,249,074** | **5,372,830** |
| **OPERATING EXPENSES:** | | | | |
| Salaries and wages | 2,076,665 | | **2,076,665** | 2,131,511 |
| Employee benefits *(Note 11)* | 578,126 | | **578,126** | 620,752 |
| Services purchased | 644,699 | | **644,699** | 670,485 |
| Depreciation *(Note 7)* | 410,229 | | **410,229** | 376,855 |
| Space and occupancy | 316,916 | | **316,916** | 364,163 |
| Supplies and equipment | 210,697 | | **210,697** | 243,870 |
| Interest *(Note 10)* | 183,455 | | **183,455** | 180,727 |
| Scholarships and other student awards *(Note 12)* | 160,744 | | **160,744** | 163,618 |
| Other expenses *(Note 16)* | 384,825 | | **384,825** | 630,897 |
| **TOTAL OPERATING EXPENSES** | **4,966,356** | **0** | **4,966,356** | **5,382,878** |
| **NET OPERATING SURPLUS/(DEFICIT)** | **148,213** | **134,505** | **282,718** | **(10,048)** |
| **NON-OPERATING ACTIVITIES:** | | | | |
| Income from GOA investments | 2,504 | | **2,504** | 8,808 |
| GOA realized and change in unrealized appreciation, net *(Note 3)* | 1,529,850 | | **1,529,850** | 281,613 |
| GOA returns made available for operations | (143,787) | | **(143,787)** | (176,174) |
| Change in pledge balances *(Note 6)* | | (12,362) | **(12,362)** | (171,440) |
| Change in interests in trusts held by others | | 765 | **765** | 657 |
| Gifts for facilities and loan funds *(Note 14)* | | 135,488 | **135,488** | 51,448 |
| Change in retirement obligations *(Note 11)* | 105,987 | | **105,987** | (81,927) |
| Other changes | (162,718) | | **(162,718)** | (12,670) |
| Transfers between GOA and endowment *(Note 8)* | 1,540 | (2,156) | **(616)** | 1,543 |
| Transfers between GOA and split interest agreements *(Note 9)* | | 21,019 | **21,019** | 11,916 |
| Non-operating net assets released from restrictions | 184,495 | (184,495) | **0** | 0 |
| **TOTAL NON-OPERATING ACTIVITIES** | **1,517,871** | **(41,741)** | **1,476,130** | **(86,226)** |
| **GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR** | **1,666,084** | **92,764** | **1,758,848** | **(96,274)** |
| Endowment net change during the year | 2,048,245 | 9,223,128 | **11,271,373** | 964,680 |
| Split interest agreements net change during the year *(Note 9)* | | 175,137 | **175,137** | 24,824 |
| **NET CHANGE DURING THE YEAR** | **3,714,329** | **9,491,029** | **13,205,358** | **893,230** |
| Net assets, beginning of year | 12,297,117 | 37,872,599 | **50,169,716** | **49,276,486** |
| **NET ASSETS, END OF YEAR** | **$ 16,011,446** | **$ 47,363,628** | **$ 63,375,074** | **$ 50,169,716** |

*The accompanying notes are an integral part of the consolidated financial statements.*

## STATEMENTS OF CHANGES IN NET ASSETS OF THE ENDOWMENT

*with summarized financial information for the year ended June 30, 2020*

| *In thousands of dollars* | Without Donor Restrictions | With Donor Restrictions | For the year ended June 30 2021 | For the year ended June 30 2020 |
|---|---|---|---|---|
| Investment return *(Note 3)*: | | | | |
| Income from general investments | $ 3,284 | $ 14,639 | **$ 17,923** | $ 74,305 |
| Realized and change in unrealized appreciation, net | 2,344,997 | 10,469,783 | **12,814,780** | 2,602,126 |
| Total investment return | 2,348,281 | 10,484,422 | **12,832,703** | **2,676,431** |
| Endowment returns made available for operations | (378,998) | (1,660,526) | **(2,039,524)** | (1,998,756) |
| Net investment return | 1,969,283 | 8,823,896 | **10,793,179** | **677,675** |
| Gifts for endowment *(Note 14)* | 49,076 | 415,943 | **465,019** | 469,203 |
| Transfers between endowment and the GOA *(Note 8)* | (1,540) | 2,156 | **616** | (1,543) |
| Capitalization of split interest agreements *(Note 9)* | | 16,830 | **16,830** | 12,136 |
| Change in pledge balances *(Note 6)* | | (54,262) | **(54,262)** | (191,451) |
| Change in interests in trusts held by others *(Note 8)* | | 87,633 | **87,633** | 6,331 |
| Other changes | (5,216) | (32,426) | **(37,642)** | (7,671) |
| Net assets released from restrictions | 36,642 | (36,642) | **0** | 0 |
| **NET CHANGE DURING THE YEAR** | **2,048,245** | **9,223,128** | **11,271,373** | **964,680** |
| Net assets of the endowment, beginning of year | 7,374,810 | 34,519,570 | **41,894,380** | 40,929,700 |
| **NET ASSETS OF THE ENDOWMENT, END OF YEAR** | **$ 9,423,055** | **$ 43,742,698** | **$ 53,165,753** | **$ 41,894,380** |

*The accompanying notes are an integral part of the consolidated financial statements.*

## STATEMENTS OF CASH FLOWS

*with summarized financial information for the year ended June 30, 2020*

| *In thousands of dollars* | For the year ended June 30 2021 | 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Change in net assets | **$ 13,205,358** | $ 893,230 |
| Adjustments to reconcile change in net assets to net cash (used in) operating activities: | | |
| Depreciation | **410,229** | 376,855 |
| Amortization of premium and discount related to bonds and notes payable | **(38,512)** | (28,489) |
| Realized and change in unrealized appreciation, net | **(14,741,458)** | (2,940,852) |
| Change in fair value of interest rate exchange agreements | **(12,928)** | 16,832 |
| Change in interests in trusts held by others | **(88,398)** | (6,988) |
| Change in liabilities due under split interest agreements | **226,092** | (14,147) |
| Gifts of donated securities | **(111,634)** | (114,118) |
| Proceeds from the sales of gifts of unrestricted securities | **22,290** | 18,886 |
| Gifts for restricted purposes | **(527,463)** | (335,376) |
| Cost of issuance of debt | **362** | (4,213) |
| Loss on disposal of assets | **39,033** | 181,349 |
| Change in accrued retirement obligations | **(137,604)** | 95,707 |
| Non-cash operating lease costs | **64,737** | 25,759 |
| Changes in operating assets and liabilities: | | |
| Receivables, net | **(59,751)** | 33,590 |
| Prepayments and deferred charges | **(10,252)** | (38,201) |
| Pledges receivable, net | **67,217** | 362,652 |
| Accounts payable | **155,865** | (37,995) |
| Deferred revenue and other liabilities | **135,848** | 77,367 |
| Operating lease liability | **(64,727)** | (27,070) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(1,465,696)** | **(1,465,222)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Loans made to students, faculty, and staff | **(50,412)** | (49,990) |
| Payments received on student, faculty, and staff loans | **55,893** | 52,515 |
| Change in other notes receivable | **(10,843)** | (1,136) |
| Proceeds from the sales and maturities of investments | **17,206,874** | 14,837,933 |
| Purchase of investments | **(15,952,533)** | (13,911,250) |
| Change associated with repurchase agreements | **427,855** | 296,726 |
| Additions to fixed assets | **(472,027)** | (764,415) |
| **NET CASH PROVIDED BY INVESTING ACTIVITIES** | **1,204,807** | **460,383** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Change in overdrafts included in accounts payable | **6,377** | 4,194 |
| Change in split interest liability from new contributions, income and payments to annuitants | **(26,319)** | (26,013) |
| Proceeds from issuance of debt | | 602,131 |
| Debt repayments | **(123,330)** | (118,099) |
| Proceeds from the sales of gifts of restricted securities | **89,344** | 95,232 |
| Gifts for restricted purposes | **527,463** | 335,376 |
| Affiliated entity contributions and distributions, net | | 56 |
| Change in government loan advances | **(8,941)** | (21,985) |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **464,594** | **870,892** |
| **NET CHANGE IN CASH** | **203,705** | **(133,947)** |
| Cash, beginning of year | **1,360,598** | **1,494,545** |
| **CASH, END OF YEAR** | **$ 1,564,303** | **$ 1,360,598** |
| Cash and cash equivalents (per *Balance Sheets)* | **$ 224,042** | $ 176,615 |
| Cash and cash equivalents held in investments *(Note 3)* | **1,340,261** | 1,183,983 |
| **TOTAL CASH AND CASH EQUIVALENTS** | **$ 1,564,303** | **$ 1,360,598** |
| Supplemental disclosure of cash flow information: | | |
| Accounts payable related to fixed asset additions | $ 40,225 | $ 35,237 |
| Cash paid for interest | $ 223,715 | $ 212,831 |
| Non-cash proceeds from issuance of debt | | $ 450,000 |
| Use of non-cash proceeds to refinance debt | | $ (450,000) |

*The accompanying notes are an integral part of the consolidated financial statements.*

## 1. UNIVERSITY ORGANIZATION

Harvard University (the "University") is a private, not-for-profit institution of higher education with approximately 5,200 undergraduate and 13,400 graduate students in fiscal year 2021, as compared to 6,700 undergraduate and 13,600 graduate students in fiscal year 2020. Established in 1636, the University includes the Faculty of Arts and Sciences, the John A. Paulson School of Engineering and Applied Sciences, the Division of Continuing Education, ten graduate and professional Schools, the Radcliffe Institute for Advanced Study, a variety of research museums and institutes, and an extensive library system to support the teaching and research activities of the Harvard community.

The President and Fellows of Harvard College (the "Corporation"), a governing board of the University, has oversight responsibility for all of the University's financial affairs. The Corporation delegates substantial authority to the Schools and departments for the management of their resources and operations.

The University includes Harvard Management Company (HMC), a wholly owned subsidiary founded in 1974 to manage the University's investment assets. HMC is governed by a Board of Directors that is appointed by the Corporation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and affiliated organizations controlled by the University. Significant inter-affiliate accounts and transactions have been eliminated.

Funds transferred to the University on behalf of specific beneficiaries (agency funds) are recorded as assets and liabilities in the *Balance Sheets* and are not included in the *Statement of Changes in Net Assets with General Operating Account Detail*.

The financial statements include certain prior year summarized comparative information in total, not by net asset classification. This information is not presented in sufficient detail to conform to generally accepted accounting principles (GAAP). Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2020, from which the summarized information is derived. Certain prior year amounts have been reclassified to conform to current year presentation.

### Net asset classifications

For the purposes of financial reporting, the University classifies resources into two net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

**WITHOUT DONOR RESTRICTIONS**—Net assets not subject to donor-imposed restrictions. Funds invested in fixed assets and unrestricted endowment funds comprise 85% of the University's net assets without donor-imposed restrictions as of June 30, 2021. In addition, this category includes gifts and endowment income balances where the donor restriction has been met, University-designated loan funds, and other current funds.

**WITH DONOR RESTRICTIONS**—Net assets subject to legal or donor-imposed restrictions that will be satisfied either by actions of the University, the passage of time, or both. These net assets include net assets subject to donor-imposed restrictions that are invested to provide a perpetual source of income to the University. Generally, donors of these assets require the University to maintain and invest the original contribution in perpetuity, but permit the use of some or all investment returns for general or specific purposes. The appreciation on these perpetual contributions must be reported as net assets with donor restrictions until appropriated for spending in accordance with Massachusetts law. Also included in this category are gifts donated for a particular purpose and amounts subject to time restrictions such as funds pledged for future payment.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by donor stipulations or by law. Investment returns earned by restricted donor funds are initially classified as net assets with donor restrictions and then reclassified to net assets without donor restrictions when expenses are appropriated or incurred for their intended purpose. Expirations of donor restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions and appear as "Net assets released from restrictions" and "Non-operating net assets released from restrictions" in the *Statements of Changes in Net Assets*.

## Liquidity and availability

As part of the University's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. A significant portion of the University's annual expenditures are funded by operating revenues in the current year including student income, sponsored support, endowment returns made available for operations, gifts for current use and other revenues.

The University's financial assets available within one year of the balance sheet date for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, are as follows (in thousands):

| | June 30, | |
|---|---|---|
| | 2021 | 2020 |
| **FINANCIAL ASSETS** | | |
| Cash and cash equivalents | $ 224,042 | $ 176,615 |
| Receivables, net | 322,482 | 262,731 |
| Pledge receivables due in one year | 347,284 | 340,017 |
| Cash, cash equivalents and short-term investments held separately by General Operating Account (GOA)[1] | 1,539,736 | 1,559,440 |
| Endowment and GOA returns made available for operations in the following year | 2,308,724 | 2,184,082 |
| **TOTAL FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR** | **$ 4,742,268** | **$ 4,522,885** |
| **LIQUIDITY RESOURCES** | | |
| Credit facility, undrawn balance | 1,500,000 | 1,500,000 |
| Tax-exempt commercial paper, undrawn balance | 1,000,000 | 1,000,000 |
| Taxable commercial paper, undrawn balance | 2,000,000 | 2,000,000 |
| **TOTAL FINANCIAL ASSETS AND RESOURCES AVAILABLE WITHIN ONE YEAR** | **$ 9,242,268** | **$ 9,022,885** |

[1] *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, as referenced on page 8 in the Financial Overview.*

Endowment and GOA returns liquidated from investments and made available for operations over the course of the fiscal year are distributed to University department and program budgets to spend, subject to donor restrictions where applicable.

While the University has no intention of doing so, there are additional investments held by the University and the endowment that could be liquidated in the event of an unexpected disruption. While a portion of the endowment is subject to donor restrictions, there is $9.4 billion and $7.4 billion in endowment funds without donor restrictions at June 30, 2021 and 2020, respectively and $4.8 billion and $3.5 billion of General Operating Account investments (GOA) at June 30, 2021 and 2020, respectively, that could be accessed with the approval of the Corporation and subject to the redemption provisions described in *Note 3*.

## Revenue recognition

Revenue is recognized when control of promised goods or services is transferred to customers, in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services.

Student income is derived from degree programs as well as executive and continuing education programs and includes tuition, fees, and board and lodging. Student income is recognized ratably over the academic period of the course or program offered based on time elapsed, and scholarships awarded to students reduce the amount of revenue recognized. The University's individual schools have various billing and academic cycles and the majority of our programs are completed within the fiscal year. Student income received in advance of services to be rendered is recorded as deferred revenue which totaled $226.0 million and $208.3 million, respectively, at June 30, 2021 and 2020, which are primarily recognized in the subsequent fiscal year.

Total student income of $888.3 million and $1.1 billion was recorded during the years ended June 30, 2021 and 2020, respectively. Student tuition, fees, board and lodging at published rates is summarized as follows for the years ended June 30, 2021 and 2020 (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Undergraduate program | **$ 278,412** | $ 347,292 |
| Graduate and professional degree programs | **581,259** | 613,614 |
| Continuing education and executive programs | **395,076** | 425,867 |
| Board and lodging | **69,496** | 164,372 |

*Scholarships applied to student charges were $435,959 and $480,989 for the years ended June 30, 2021 and 2020, respectively.*

Unconditional contributions including pledges are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions for which cash is received are accounted for as a liability within deferred revenue.

Sponsored support of $926.7 million includes support from governmental and private sources. Certain sponsored arrangements are considered exchange arrangements, and revenue under these agreements is recognized based on the University's fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones. Other sponsored support is considered contribution revenue, which is recognized when any donor-imposed conditions have been met, if applicable. Sponsored conditional contributions received, where the barrier to entitlement is not yet overcome, are recorded as deferred revenues of $68.2 million and $51.2 million as of June 30, 2021 and 2020, respectively. As of June 30, 2021, the University also had $1.6 billion awarded but not yet expended contributions related to sponsored programs where the condition had not yet been met. This is subject to federal appropriations. Funding received in advance of recognition is recorded as deferred revenue.

Other revenue of $693.9 million includes several revenue streams considered exchange contracts with customers totaling $605.3 million for fiscal year 2021. These revenues are recognized at the point in time goods or services are provided. Deferred revenues related to other income of $102.1 million and $107.6 million were recorded as of June 30, 2021 and 2020, which are primarily recognized in the subsequent fiscal year.

### Measure of operations

Revenues earned, expenses incurred, and returns made available for operations for the purpose of teaching, conducting research, and the other programs and services of the University are the components of "Net operating surplus" in the *Statement of Changes in Net Assets with General Operating Account Detail*. The University's non-operating activity within the *Statement of Changes in Net Assets with General Operating Account Detail* includes contributions to the University's building construction and renovation funds, investment returns (net of amounts made available for operations), change in pledge balances, long-term benefit plan obligation funding changes, and other infrequent transactions.

### Collections

The University's vast array of museums and libraries contains priceless works of art, historical treasures, literary works, and artifacts. These collections are protected and preserved for public exhibition, education, research, and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recorded for financial statement purposes. Proceeds on deaccessioned collections are used to fund new collections or the direct care of existing collections. Direct care is defined as general care for the preservation of a collection.

### Insurance programs

The University, together with the Harvard-affiliated teaching hospitals, has formed a captive insurance company, Controlled Risk Insurance Company (CRICO), to provide limited professional liability, general liability, and medical malpractice insurance for its shareholders. The University self-insures a portion of its professional liability and general liability programs and maintains a reserve for incurred claims, including those related to Harvard Medical School activities not occurring in the affiliated teaching hospitals. CRICO provided malpractice coverage applies with no deductible for medical professionals practicing within Harvard's University Health Services department, the School of Dental Medicine, and the T.H. Chan School of Public Health. The University also maintains reserves for the self-insured portion of claims related to automobile liability, property damage, and workers' compensation; these programs are supplemented with commercial excess insurance above the University's self-insured retention. In addition, the University is self-insured for unemployment, the primary retiree health plan, and all health and dental plans for active employees. The University's claims liabilities are recognized as incurred, including claims that have been incurred but not reported, and are included in operating expenses.

### Tax

The University is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted. The Act impacts the University in several ways, including the addition of excise taxes on executive compensation and net investment income, as well as new rules for calculating unrelated business taxable income. The University records an estimate for related tax expense based on currently available regulatory guidance of the Act, and continues to evaluate the impact of the Act on current and future tax positions.

### Use of estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

### New accounting pronouncements

Effective July 1, 2020, the University adopted ASU 2019-03, *Not-for-Profit Entities (Topic 958):Updating the Definition of Collections*. The accounting pronouncements updates the definition of "collections" to align with the definition used by the American Alliance of Museums. The change in the definition requires proceeds from sales of collections to be used for acquisition of additional collections or direct care of existing collections. The University adopted ASU 2019-03 prospectively. The guidance did not have a significant impact on the University's consolidated financial statements.

Effective July 1, 2019, the University adopted ASU 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendment requires the bifurcation of net benefit cost where the service cost component continues to be presented with other employee costs in operating income (or capitalized in assets) and the other components (such as interest, expected return on plan assets, and amortization of actuarially determined amounts) are required to be presented as a nonoperating change in net assets without restrictions. The effects of adopting this amendment resulted in the inclusion of all net periodic benefits costs, other than services costs, in "Change in retirement obligations", reported in nonoperating activities in the *Statement of Changes in Net Assets with General Operating Account Detail*.

Effective July 1, 2019, the University adopted ASU 2016-02, *Leases,* which requires a lessee to recognize a right of use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The effects of adopting this guidance resulted in the inclusion of the present value of operating lease payments in the *Balance Sheets* as "Operating leases — right of use assets" of $780.5 million and "Operating leases liabilities" of $794.7 million upon adoption. The University elected the package of practical expedients to not reassess: (1) whether any expired or existing contracts are or contain leases, (2 lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The University elected the short-term lease exemption policy as well as the practical expedient that allows lessees to treat the lease and non-lease components as a single lease component. In addition, the University elected to use hindsight to reassess lease terms or impairment at the adoption date. The effects of adopting this amendment are addressed in *Note 18*.

Effective July 1, 2019, the University adopted ASU 2016-18, *Restricted Cash (Topic 230): Statement of Cash Flows*. The amendments in the update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are now included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The effects of adopting this amendment resulted in all cash and cash equivalents, including those held in the endowment, to be included in cash and cash equivalents presented in the *Statements of Cash Flows*.

Effective July 1, 2019, the University adopted ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments (Topic 230): Statement of Cash Flows*. ASU 2016-15 clarifies how certain cash receipts and cash payments in the statement of cash flows are presented. The University adopted ASU 2016-15 retrospectively. The guidance did not have a significant impact on the University's consolidated financial statements.

Effective July 1, 2019, the University adopted ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities,* which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using net asset value (NAV), at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the statement of financial position or in the accompanying notes. This guidance did not have a significant impact on the University's consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-15, *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software or software licenses. The amendment is effective for fiscal year 2022 and the University is evaluating the impact of the new guidance on the consolidated financial statements.

## 3. INVESTMENTS

Investments are presented at fair value in accordance with GAAP and under the guidelines prescribed by the HMC investment valuation policy, which is reviewed and approved by the HMC Board of Directors on an annual basis.

The majority of the University's investments are managed by HMC in the GIA, a pooled investment account that consists primarily of endowment assets. Certain other investments such as cash, short-term investments, split interest agreements and other assets, are managed separately from the GIA.

The University's investment holdings as of June 30, 2021 and 2020 are summarized in the following table (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Investment portfolio assets | | |
| Pooled general investment account assets | **$ 58,566,261** | $ 45,681,215 |
| Other investments | **2,575,489** | 2,430,226 |
| Investment portfolio, at fair value | **61,141,750** | **48,111,441** |
| Securities pledged to counterparties, at fair value | **290,388** | 214,010 |
| **TOTAL INVESTMENT ASSETS** | **61,432,138** | **48,325,451** |
| Pooled general investment account liabilities | **724,924** | 833,777 |
| Interest rate exchange agreement | **31,313** | 44,241 |
| **TOTAL OTHER LIABILITIES ASSOCIATED WITH THE INVESTMENT PORTFOLIO** | **756,237** | **878,018** |
| **TOTAL INVESTMENTS, NET** | **$ 60,675,901** | **$ 47,447,433** |

As of June 30, 2021 and 2020, University net investments were comprised of the following components (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| **POOLED GENERAL INVESTMENT ACCOUNT** | | |
| Endowment[1] | **$ 51,279,803** | $ 39,982,475 |
| General operating account | **4,777,430** | 3,486,092 |
| Split interest agreements | **1,021,209** | 803,490 |
| Other internally designated funds | **1,053,283** | 789,391 |
| **TOTAL POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS** | **$ 58,131,725** | **$ 45,061,448** |
| **OTHER INVESTMENTS OUTSIDE THE GENERAL INVESTMENT ACCOUNT** | | |
| General operating and other investments[2] | **1,772,698** | 1,771,698 |
| Split interest agreements | **771,478** | 614,287 |
| **TOTAL OTHER INVESTMENTS OUTSIDE THE GENERAL INVESTMENT ACCOUNT** | **$ 2,544,176** | **$ 2,385,985** |
| **TOTAL INVESTMENTS, NET** | **$ 60,675,901** | **$ 47,447,433** |

1 *Includes only the portion of the endowment invested in the GIA and excludes pledges, interests in trusts held by others, other non-GIA investments, and GIA interest and dividends net of all internal and external management fees and expenses.*
2 *Consists primarily of repurchase agreements, US government securities, money markets, and fixed income funds, net of unsettled trades, totaling $1,563,715 and $1,582,042 as of June 30, 2021 and 2020, respectively.*

## Investment return

A summary of the University's total return on investments for fiscal years 2021 and 2020 is presented below (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Return on pooled general investment account: | | |
| Realized and change in unrealized appreciation, net | **$ 14,522,886** | $ 2,931,018 |
| Interest, dividend, fees, and expenses, net | **20,216** | 83,852 |
| Total return on pooled general investment account[1] | **14,543,102** | **3,014,870** |
| Return on other investments: | | |
| Realized and change in unrealized appreciation, net | **218,572** | 9,834 |
| Interest, dividend, fees, and expenses, net | **26,093** | 45,685 |
| Total return on other investments | **$ 244,665** | **$ 55,519** |
| Realized and change in unrealized appreciation/(depreciation) on interest rate exchange agreement, net | **9,272** | (19,070) |
| **TOTAL RETURN ON INVESTMENTS[2]** | **$ 14,797,039** | **$ 3,051,319** |

1 *Net of internal and all external management fees and expenses.*
2 *Total return on investments is comprised of returns on the endowment, GOA, Split Interest Agreements and other.*

## Fair value hierarchy

The University's investments have been categorized based upon the fair value hierarchy in accordance with ASC 820, which prioritizes the inputs to valuation techniques used to measure fair value of investment assets and liabilities into three levels:

**LEVEL 1** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

**LEVEL 2** Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

**LEVEL 3** Prices or valuations that require inputs that are significant to the fair value measurement, unobservable and/or require the University to develop its own assumptions.

Investments in externally managed funds where the University utilizes net asset values (as reported by external managers) as a practical expedient for fair value measurements are excluded from the fair value hierarchy.

The level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The University endeavors to utilize all relevant and available information in measuring fair value.

The following is a summary of the levels within the fair value hierarchy for those investment assets and liabilities subject to fair value measurement as of June 30, 2021 and summarized as of June 30, 2020 (in thousands of dollars):

| | 2021 | | | | | 2020 |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | NAV as Practical Expedient | Total | Total |
| **ASSETS:** | | | | | | |
| Cash and cash equivalents[1] | $ 1,340,261 | | | | **$ 1,340,261** | **$ 1,183,983** |
| Repurchase agreements | | $ 50,063 | | | **50,063** | **477,918** |
| Domestic equity | 2,354,507 | | | $ 1,956,807 | **4,311,314** | **3,615,658** |
| Foreign equity | 183,240 | | | 1,971,680 | **2,154,920** | **1,867,503** |
| Global equity | | | | 2,351,562 | **2,351,562** | **1,542,236** |
| Domestic fixed income | 1,256,155 | 10,003 | | 1,133,259 | **2,399,417** | **2,712,900** |
| Foreign fixed income | 1,920 | | | | **1,920** | **20,729** |
| Emerging market equity and debt | 32,465 | | | 4,529,686 | **4,562,151** | **3,256,427** |
| High yield | 2,051 | | $ 273,571 | | **275,622** | **267,728** |
| Hedge funds | | | | 18,030,872 | **18,030,872** | **15,515,652** |
| Private equity | | | 1,891,116 | 18,796,946 | **20,688,062** | **11,047,118** |
| Natural resources | 14,300 | | | 449,978 | **464,278** | **1,329,924** |
| Real estate | | | 23,859 | 2,883,237 | **2,907,096** | **3,209,643** |
| Inflation-indexed bonds | 1,156,229 | | | | **1,156,229** | **935,440** |
| Due from brokers | 3,981 | 5,305 | 4,625 | | **13,911** | **30,293** |
| Other investments | | 35,532 | | | **35,532** | **6,712** |
| **INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 6,345,109** | **$ 100,903** | **$ 2,193,171** | **$ 52,104,027** | **$ 60,743,210** | **$ 47,019,864** |
| Other investment assets not subject to fair value[2] | | | | | **688,928** | **1,305,587** |
| **TOTAL INVESTMENT ASSETS**[3] | | | | | **$ 61,432,138** | **$ 48,325,451** |
| Interests in trusts held by others[4] | | | 515,757 | | **515,757** | **427,359** |
| **NON-INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING** | | | **$ 515,757** | | **$ 515,757** | **$ 427,359** |
| **TOTAL ASSETS** | | | | | **$ 61,947,895** | **$ 48,752,810** |
| **LIABILITIES:** | | | | | | |
| Due to brokers[5] | | $ 131,941 | | | **$ 131,941** | **$ 132,065** |
| Other liabilities subject to fair value | | | $ 148,728 | | **148,728** | **246,410** |
| **INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING** | **$ 0** | **$ 131,941** | **$ 148,728** | | **$ 280,669** | **$ 378,475** |
| Other investment liabilities not subject to fair value[6] | | | | | **475,568** | **499,543** |
| **TOTAL INVESTMENT LIABILITIES** | | | | | **$ 756,237** | **$ 878,018** |
| Liabilities due under split interest agreements[4] | | 1,019,357 | | | **1,019,357** | **819,584** |
| **NON-INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING** | | **$ 1,019,357** | | | **$ 1,019,357** | **$ 819,584** |
| **TOTAL LIABILITIES** | | | | | **$ 1,775,594** | **$ 1,697,602** |

1 *This excludes money markets held in "Cash and cash equivalents" on the* Balance Sheets *of $65.0 million as of June 30,2021 and 2020, respectively, which are Level 1 investments.*

2 *As of June 30, 2021, other assets not subject to fair value consists primarily of receivables for transactions that settled subsequent to the balance sheet date of $612,801. As of June 30, 2020, other assets not subject to fair value consists primarily of receivables for transactions that settled subsequent to the balance sheet date of $1,189,950, before eliminating inter-company balances, and consolidated assets of $146,365.*

3 *As of June 30, 2021 and 2020, total investment assets, net equal $60,675,901 and $47,447,433, respectively.*

4 *Amounts excluded from investments and included separately on the University's* Balance Sheets.

5 *Includes fair value of an interest rate exchange agreement on the University's debt portfolio of $31,313 and $44,241 as of June 30, 2021 and 2020, respectively.*

6 *As of June 30, 2021 and 2020, other liabilities not subject to fair value include consolidated liabilities of $11,925 and $167,795, respectively.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2021 and the condensed June 30, 2020 rollforward of Level 3 investments (in thousands of dollars).

| | Beginning balance as of July 1, 2020 | Net realized gains/ (losses) | Net change in unrealized appreciation/ (depreciation)[1] | Purchases/ contributions | Sales/ distributions | Transfers into Level 3 | Transfers out of Level 3 | Ending balance as of June 30, 2021 |
|---|---|---|---|---|---|---|---|---|
| **INVESTMENT ASSETS:** | | | | | | | | |
| High yield | $ 264,452 | $ 2,142 | $ 7,806 | $ 84,723 | $ (85,552) | | | **$ 273,571** |
| Private equity | 477,858 | (528) | 388,813 | 400,340 | (66,815) | $ 740,943 | $ (49,495) | **1,891,116** |
| Natural resources | 1,291,911 | (5,756) | (317,207) | 27,009 | (570,840) | | (425,117) | **0** |
| Real estate | 24,627 | | (5,768) | 5,000 | | | | **23,859** |
| Due from brokers | 4,629 | | (4) | | | | | **4,625** |
| Other investments | 6,712 | | | | | | (6,712) | **0** |
| **INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 2,070,189** | **$ (4,142)** | **$ 73,640** | **$ 517,072** | **$ (723,207)** | **$ 740,943** | **$ (481,324)** | **$ 2,193,171** |
| Interests in trusts held by others | 427,359 | | 90,076 | | (1,464) | | (214) | **$ 515,757** |
| **NON-INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 427,359** | | **$ 90,076** | | **$ (1,464)** | | **$ (214)** | **$ 515,757** |
| **TOTAL ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 2,497,548** | **$ (4,142)** | **$ 163,716** | **$ 517,072** | **$ (724,671)** | **$ 740,943** | **$ (481,538)** | **$ 2,708,928** |
| **INVESTMENT LIABILITIES:** | | | | | | | | |
| Other liabilities subject to fair value | $ 246,410 | | | $ (134,980) | $ 37,298 | | | **$ 148,728** |
| **TOTAL LIABILITIES SUBJECT TO FAIR VALUE LEVELING** | **$ 246,410** | **$ 0** | **$ 0** | **$ (134,980)** | **$ 37,298** | | | **$ 148,728** |
| **NET ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 2,251,138** | **$ (4,142)** | **$ 163,716** | **$ 652,052** | **$ (761,969)** | **$ 740,943** | **$ (481,538)** | **$ 2,560,200** |

[1] *Total change in unrealized appreciation/(depreciation) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2021 is $206,133 and is reflected in "Realized and change in unrealized appreciation, net" in the* Statements of Changes in Net Assets.

| | Beginning balance as of July 1, 2019 | Net realized gains/ (losses) | Net change in unrealized appreciation/ (depreciation)[1] | Purchases/ contributions | Sales/ distributions | Transfers into Level 3 | Transfers out of Level 3 | Ending balance as of June 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| **PRIOR YEAR NET ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 2,594,348** | **$ 87,592** | **$ (198,967)** | **$ 1,000,889** | **$ (1,232,724)** | **$ 0** | **$ 0** | **$ 2,251,138** |

[1] *Total change in unrealized appreciation/(depreciation) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2020 is $(233,329) and is reflected in "Realized and change in unrealized appreciation, net" in the* Statements of Changes in Net Assets.

At June 30, 2021, certain private equity investments were valued using a secondary sale price and were transferred into Level 3. In October 2020, the University sold a portion of its direct natural resource portfolio to a third-party and transferred a portion to an external investment manager. As of June 30, 2021, the fair value of these investments are measured at NAV as reported by the external investment manager.

## Investment strategy and risk

The University utilizes a number of wholly owned subsidiary entities to support its investment activities. The consolidated financial statements include all assets, liabilities, income, and expenses associated with these entities and intercompany accounts and transactions have been eliminated during consolidation.

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the movements of the global public and private equity, fixed income, real estate, and commodities markets. Exposure to these markets is achieved through direct investments in individual securities, investments in special purpose vehicles and/or through investments in vehicles advised by external managers.

Investments in global markets involve a multitude of risks such as price, interest rate, market, sovereign, currency, liquidity and credit risks, amongst many others. The University manages exposure to these risks through established policies and procedures related to its ongoing investment diligence and operational due diligence programs. The University also considers manager concentration risk. As of June 30, 2021, 18% of the GIA NAV was invested across 5 diversified fund managers. The University anticipates that the value and composition of its investments may, from time to time, fluctuate substantially in response to any or all of the risks described herein.

### Cash and cash equivalents

Cash and cash equivalents are recorded at cost, which approximates fair value, and includes cash in bank accounts, institutional money market funds and other temporary investments held for working capital purposes with original maturities of three months or less. Cash and cash equivalents do not include cash balances held as collateral by the University. Cash and cash equivalents designated for investment purposes are included in the "Investment portfolio, at fair value" in the *Balance Sheets*.

### Repurchase agreements

The University *Balance Sheets* display the assets generated by repurchase transactions. The University enters into these transactions under agreements containing master netting arrangements. The University requires the fair value of the collateral exchanged under these agreements to be equal to or in excess of the total amount of the agreement, including interest where applicable. At June 30, 2021 and 2020 the University had gross asset repurchase agreements of $0.1 billion and $0.5 billion which were fully collateralized. The University does not offset repurchase agreements that are subject to master netting arrangements or similar arrangements on the University's *Balance Sheets*.

### Dividend and interest income

Dividend income is recognized net of applicable withholding taxes on the ex-dividend date. Non-cash dividends are recorded at the fair value of the securities received. Interest income and expense is recorded net of applicable withholding taxes, on an accrual basis. The University amortizes bond premiums and accretes bond discounts using the effective yield method and when cash collection is expected.

### Traded securities

Instruments listed or traded on a securities exchange are valued at the last quoted price on the primary exchange where the security is traded. Where there is no readily available closing price on the valuation date, long positions are valued at the bid price and short positions are valued at the ask price. Restrictions that are attached to a security are factored into the valuation of that security, reflective of the estimated impact of those restrictions. Investments in non-exchange traded debt and equity instruments are primarily valued using inputs provided by independent pricing services or by broker/dealers who actively make markets in these securities.

### Derivatives

The University uses a variety of financial instruments with off-balance sheet risk involving contractual or optional commitments for future settlement, which are exchange traded or executed over the counter (OTC). These instruments are used to (1) manage exposure to certain asset classes and/or various market risks, (2) arbitrage mispricings of related securities and (3) to manage the interest, cost and risk associated with its outstanding and/or future debt. These instruments are classified as due to/from brokers and may include option, swap, credit default, interest rate, and forward contracts. These types of instruments are primarily valued using industry standard models with independent market inputs, or by broker quotes. Inputs such as prices, spreads, curves, and/or broker quotes are evaluated for source reliability and consistency with industry standards. Counterparty marks obtained and utilized to determine daily collateral requirements are also used to corroborate input reasonability. The University considers current market conditions including interest rate and credit risks in its evaluation of inputs, pricing methodologies, and models utilized to determine fair values.

In connection with its investments in derivatives, the University maintains master netting agreements and collateral agreements with its counterparties. These agreements provide the University the right, in the event of default by the counterparty (such as bankruptcy or a failure to pay or perform), to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty. Collateral, generally in the form of debt obligations issued by the US Treasury, is exchanged on a daily basis as required by fluctuations in the market.

Specific credit limits are established for counterparties based on their individual credit ratings. Credit limits are monitored daily by the University and are adjusted according to policy, as necessary. Some of the financial instruments entered into by the University contain credit-risk-related contingency features that allow the parties to the agreement to demand immediate payment for outstanding contracts and/or collateral.

The following table presents information about the University's derivatives by primary risk exposure for the years ended June 30, 2021 and 2020 (in thousands of dollars):

| | As of June 30, 2021 | | | For the year ended June 30, 2021 | As of June 30, 2020 | | | For the year ended June 30, 2020 |
|---|---|---|---|---|---|---|---|---|
| Primary risk exposure | Average Quarterly Notional | Gross derivative assets | Gross derivative liabilities | Net profit/ (loss)[4] | Average Quarterly Notional | Gross derivative assets | Gross derivative liabilities | Net profit/ (loss)[4] |
| Equity instruments | $ 5,904,280 | $ 88,221 | $ 179,670 | $ (726,954) | $ 3,443,938 | $ 59,867 | $ 122,097 | $ 92,208 |
| Fixed income instruments[1] | 117,000 | | 31,313 | 9,272 | 117,000 | | 44,241 | (19,070) |
| Currency instruments | 7,951 | 5,966 | 5,963 | 3,163 | 21,020 | 10 | 14 | (150) |
| Credit instruments | 4,747 | 4,729 | | (49) | 4,723 | 4,703 | | 21 |
| **SUBTOTAL** | | **$ 98,916** | **$ 216,946** | **$ (714,568)** | | **$ 64,580** | **$ 166,352** | **$ 73,009** |
| **TOTAL COUNTERPARTY NETTING[2]** | | **(85,005)** | **(85,005)** | | | **(34,984)** | **(34,984)** | |
| **NET AMOUNTS INCLUDED IN THE BALANCE SHEETS[3]** | | **13,911** | **131,941** | | | **29,596** | **131,368** | |
| Collateral | | | | | | | | |
| Cash collateral received/posted | | 5,467 | | | | | | |
| Securities collateral received/posted[5] | | 3,183 | 250,592 | | | 23,586 | 189,564 | |
| **TOTAL SECURITIES COLLATERAL RECEIVED/POSTED[5]** | | **8,650** | **250,592** | | | **23,586** | **189,564** | |
| **NET AMOUNT** | | **5,261** | **(118,651)** | | | **6,010** | **(58,196)** | |
| **NET AMOUNT IN ACCORDANCE WITH ASC 210[6]** | | **$ 5,261** | **$ 0** | | | **$ 6,010** | **$ 0** | |

1 *For the year ended June 30, 2021 and 2020 the balance represents an interest rate exchange swap on the University's debt portfolio.*
2 *GAAP permits the netting of derivative assets and liabilities and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the University and a derivative counterparty.*
3 *Included within the "Investment portfolio, at fair value" and "Other liabilities associated with the investment portfolio" line items of the* Balance Sheets.
4 *Included within "Realized and change in unrealized appreciation, net" within the* Statements of Changes in Net Assets.
5 *Includes securities posted to meet initial margin requirements on exchange traded futures.*
6 *Excludes any over-collateralized amounts in accordance with ASC 210.*

## External advisors

Investments managed by external advisors include investments in private equity, real estate, natural resources, hedge funds, and other externally managed funds. The University generally utilizes the capital account balance provided by the external advisor as a practical expedient to fair value. To evaluate the adequacy of these fair value measurements, the University has assessed factors including, but not limited to, the external advisor's adherence to fair value principles in calculating the capital account balance, the existence of transactions at NAV at the measurement date and the existence or absence of certain restrictions at the measurement date. In addition, the University evaluates these external advisors through ongoing due diligence and operational oversight, which includes an analysis of an advisor's use of and adherence to fair value principles.

The University, as an investor, has commitments to make periodic contributions in future periods to the investments managed by external advisors. The amounts of these expected disbursements as of June 30, 2021 and 2020 are disclosed below (in thousands of dollars):

| | As of June 30, 2021 | | | As of June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Fair value[1] | Remaining unfunded commitments | Estimated remaining life[2] | Fair value[1] | Remaining unfunded commitments | Estimated remaining life[2] |
| Private equity funds | $ 16,240,336 | $ 7,688,416 | 4 – 10 | $ 9,017,706 | $ 6,813,583 | 4 – 10 |
| Real estate funds | 2,881,483 | 1,856,495 | 4 – 10 | 3,154,066 | 1,734,565 | 4 – 10 |
| Other externally managed funds[3] | 3,654,807 | 2,921,156 | 2 – 8 | 3,386,081 | 2,221,023 | 2 – 8 |
| **TOTAL** | **$ 22,776,626** | **$ 12,466,067** | | **$ 15,557,853** | **$ 10,769,171** | |

1 *Represents the fair value of the funded portion of investments with remaining unfunded commitments.*
2 *The estimated remaining lives of these funds, expressed in years, are forward-looking projections based on the University's estimates and could vary significantly depending on the investment decisions of external managers, changes in the University's investment portfolio, and other circumstances.*
3 *Investments in externally managed funds primarily include exposures to hedge funds and natural resources.*

Investments in externally managed funds generally have limited redemption options for investors and, subsequent to final closing, may or may not permit subscriptions by new or existing investors. These entities may also have the ability to impose gates, lockups and other restrictions on an investor's ability to readily redeem out of their investment interest in the fund.

## Direct investments

Direct investments are primarily valued using a combination of independent appraisals and/or one or more industry standard valuation techniques (e.g., income approach, market approach, or cost approach). The income approach is primarily based on the investment's anticipated future income using one of two principal methods: the discounted cash flow method or the capitalization method. Inputs and estimates developed and utilized with these techniques may be subjective, unobservable, and require judgment regarding significant matters such as estimating the amount and timing of future cash flows, forward pricing assumptions and the selection of discount and capitalization rates that appropriately reflect market and credit risks.

The market approach derives investment value through comparison to recent and relevant market transactions with similar investment characteristics. The cost approach is utilized when the cost of the investment is determined to be the best representation of fair value. This method is typically used for newly purchased or undeveloped assets. When applicable, the University examines market data and collaborates closely with independent appraisers to arrive at the best estimation of fair value for each respective asset. The HMC Board of Directors discusses the valuation process and results with HMC management, and makes determinations on significant matters impacting valuation that may arise from time to time.

The following table presents the ranges of significant unobservable inputs used to value the University's Level 3 assets. While the inputs described below represent the range of inputs utilized as of the measurement date, these inputs may change over time, which may have a material effect on the valuation of these types of investments in the future.

| | As of June 30, 2021 | | | As of June 30, 2020 | | |
|---|---|---|---|---|---|---|
| Significant unobservable input by asset class[1] | Level 3 investments subject to fair value (in thousands of dollars)[2] | Range of inputs utilized in valuation model[3] | Weighted average of inputs utilized in valuation model | Level 3 investments subject to fair value (in thousands of dollars)[2] | Range of inputs utilized in valuation model[3] | Weighted average of inputs utilized in valuation model |
| Natural resources: | $ 0 | | | $ 469,811 | | |
| Income approach discount rate | | | | | 6.0% – 16.0% | 10.8% |
| Price per planted hectare | | | | | $1,073 – $156,351 | $36,646 |
| Price per gross hectare | | | | | $168 – $57,530 | $10,393 |
| Discount for lack of marketability | | | | | 2.0% – 20.0% | 16.7% |
| High yield: | 239,573 | | | 264,027 | | |
| Income approach discount rate | | 6.0% – 16.1% | 7.7% | | 6.8% – 15.8% | 8.6% |
| Collateral coverage recovery rate | | 100% | 100% | | 100% | 100% |
| EBITDA multiple | | 7.5x – 19.0x | 8.8x | | 9.0x – 19.5x | 13.3x |
| Real estate: | 17,391 | | | 22,868 | | |
| Income approach discount rate | | 14.5% | 14.5% | | 14.5% | 14.5% |
| Income approach growth rate | | 3.0% | 3.0% | | 3.0% | 3.0% |
| Discount for lack of marketability | | 15.0% | 15.0% | | 15.0% | 15.0% |
| Private equity: | 207,033 | | | 150,294 | | |
| Income approach discount rate | | 6.0% – 15.0% | 14.3% | | 6.0% – 15.0% | 14.0% |
| EBITDA multiple | | 9.0x | 9.0x | | 8.7x | 8.7x |
| Cost multiple | | 2.5x | 2.5x | | | |
| Other liabilities subject to fair value | (148,728) | | | (246,410) | | |
| Loan to value | | | | | 5.0% – 43.5% | 16.8% |
| Market interest rate | | 2.5% – 2.8% | 2.6% | | 3.5% – 6.5% | 3.9% |
| **NET AMOUNT** | **$ 315,269** | | | **$ 660,590** | | |

[1] *The fair value of investments may be determined using multiple valuation techniques.*

[2] *Included within Level 3 investments is $2,244,931 and $1,590,548 as of June 30, 2021 and 2020, respectively, which were valued using other inputs including, but not limited to, single source broker quotations, third party pricing and recent transactions.*

[3] *The range of inputs encompasses a variety of investment types within each asset class.*

## 4. RECEIVABLES

The major components of receivables, net of reserves for doubtful accounts of $13.7 million and $13.9 million as of June 30, 2021 and 2020, respectively, were as follows (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Executive education | **$ 73,400** | $ 50,155 |
| Federal sponsored support | **57,321** | 61,939 |
| Publications | **55,058** | 48,085 |
| Leases | **32,731** | 0 |
| Tuition and fees | **20,774** | 22,108 |
| Non-federal sponsored support | **11,536** | 9,950 |
| Gift receipts | **7,985** | 9,263 |
| Other | **63,677** | 61,231 |
| **TOTAL RECEIVABLES, NET** | **$ 322,482** | **$ 262,731** |

## 5. NOTES RECEIVABLE

Notes receivable are recorded initially at face value plus accrued interest, which approximates fair value. Notes receivable, and related allowance for doubtful accounts, were as follows (in thousands of dollars):

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Receivable | Allowance | Net | Receivable | Allowance | Net |
| Student loans: | | | | | | |
| Government revolving | $ 31,933 | $ 832 | **$ 31,101** | $ 39,382 | $ 999 | **$ 38,383** |
| Institutional | 77,306 | 2,237 | **75,069** | 83,000 | 2,284 | **80,716** |
| Total student loans | 109,239 | 3,069 | **106,170** | 122,382 | 3,283 | **119,099** |
| Faculty and staff loans | 252,090 | 179 | **251,911** | 244,642 | 179 | **244,463** |
| Other loans | 57,615 | 38,100 | **19,515** | 39,257 | 30,585 | **8,672** |
| **TOTAL** | **$ 418,944** | **$ 41,348** | **$ 377,596** | **$ 406,281** | **$ 34,047** | **$ 372,234** |

Government revolving loans are funded principally with federal advances to the University under the Perkins Loan, the Health Professions Student Loan (HPSL) and Loans for Disadvantaged Students in Health Professions (LDS) Programs. These advances totaled $35.8 million and $44.7 million as of June 30, 2021 and 2020, respectively, and are classified as liabilities in the *Balance Sheets*. During fiscal year 2018, the Perkins Loan Program ended and as a result the University began making required repayments to the government. In fiscal year 2021 the University made the requested $8.8 million repayment. Interest earned on the revolving and institutional loan programs is reinvested to support additional loans. The repayment and interest rate terms of the institutional loans vary considerably.

Faculty and staff notes receivable primarily consists of mortgage and educational loans. Mortgages include shared appreciation loans, loans that bear interest at the applicable federal rate and interest-free loans. In addition, certain mortgages that bear interest at the current market rate or applicable federal rate may be subsidized for an initial period. The educational loans are primarily zero-interest loans.

The University assesses the adequacy of the allowance for doubtful accounts by evaluating the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, and, where applicable, the existence of any guarantees or indemnifications. In addition to these factors, the University reviews the aging of the loans receivable and the default rate in comparison to prior years. The allowance is adjusted based on these reviews. The University considers the allowance at June 30, 2021 and 2020 to be reasonable and adequate to absorb potential credit losses inherent in the loan portfolio.

## 6. PLEDGES RECEIVABLE

Unconditional promises to donate to the University in the future are initially recorded at fair value (pledge net of discount) and subsequently amortized over the expected payment period, net of an allowance for uncollectible pledges. The University's indicative 1- to 5-year taxable unsecured borrowing rate is used to discount pledges receivable at the end of the fiscal year they are received. Discounts of $76.3 million and $100.2 million for the years ended June 30, 2021 and 2020, respectively, were calculated using rates ranging from 0.77% to 3.10%.

Pledges receivable included in the financial statements as of June 30, 2021 and 2020 are expected to be realized as follows (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Within one year | **$ 660,300** | $ 651,310 |
| Between one and five years | **1,673,468** | 1,646,632 |
| More than five years | **257,232** | 353,091 |
| Less: discount and allowance for uncollectible pledges | **(255,042)** | (247,858) |
| **TOTAL PLEDGES RECEIVABLE, NET** | **$ 2,335,958** | **$ 2,403,175** |

Pledges receivable as of June 30, 2021 and 2020 have been designated for the following purposes (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| General Operating Account balances: | | |
| Gifts for current use | **$ 533,952** | $ 624,440 |
| Non-federal sponsored awards | **184,113** | 193,641 |
| Construction and life income | **352,802** | 265,741 |
| Total General Operating Account balances | **1,070,867** | **1,083,822** |
| Endowment | **1,265,091** | 1,319,353 |
| **TOTAL PLEDGES RECEIVABLE, NET** | **$ 2,335,958** | **$ 2,403,175** |

Because of uncertainties with regard to realizability and valuation, bequest intentions and other conditional promises are only recognized as assets if and when the specified conditions are met. Non-bequest conditional pledges totaled $115.1 million and $56.7 million as of June 30, 2021 and 2020, respectively.

## 7. FIXED ASSETS

Fixed assets are reported at cost or, if a gift, at fair value as of the date of the gift, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The major categories of fixed assets as of June 30, 2021 and 2020 are summarized as follows (in thousands of dollars):

| | 2021 | 2020 | Estimated useful life (in years) |
|---|---|---|---|
| Research facilities | **$ 3,364,398** | $ 2,494,333 | * |
| Classroom and office facilities | **2,395,225** | 2,401,659 | 35 |
| Housing facilities | **2,408,385** | 2,264,147 | 35 |
| Other facilities | **460,640** | 455,847 | 35 |
| Service facilities | **1,065,126** | 804,215 | 35 |
| Libraries | **534,930** | 509,095 | 35 |
| Museums and assembly facilities | **987,906** | 979,825 | 35 |
| Athletic facilities | **259,254** | 246,291 | 35 |
| Land | **1,024,697** | 1,042,977 | N/A |
| Construction in progress | **401,316** | 1,401,333 | N/A |
| Equipment | **1,429,723** | 1,367,264 | ** |
| **SUBTOTAL AT COST** | **14,331,600** | **13,966,986** | |
| Less: accumulated depreciation | **(5,868,592)** | (5,531,731) | |
| **FIXED ASSETS, NET** | **$ 8,463,008** | **$ 8,435,255** | |

* *Estimated useful lives of components range from 10 to 45 years.*
** *Estimated useful lives of equipment range from 3 to 10 years.*

Certain University facilities are subject to restrictions as to use, structural modifications, and ownership transfer. Included in the fixed asset balances are restricted facilities with a net book value of $280.7 million and $304.6 million as of June 30, 2021 and 2020, respectively.

The costs of research facilities are separated into the shell, roof, finishes, fixed equipment, and services. These components are separately depreciated.

Equipment includes general and scientific equipment, computers, software, furniture, and vehicles.

The University has asset retirement obligations of $200.1 million and $200.7 million, which are included in "Deferred revenue and other liabilities" in the *Balance Sheets* as of June 30, 2021 and 2020, respectively.

Right-of-use assets from finance leases of $59.0 million and $67.0 million are included in "Fixed assets" in the *Balance Sheets* as of June 30, 2021 and 2020, respectively. Lease liabilities from finance leases of $96.8 million and $104.9 million are included in "Deferred revenue and other liabilities" in the *Balance Sheets* as of June 30, 2021 and 2020, respectively.

## 8. ENDOWMENT AND GENERAL OPERATING ACCOUNT NET ASSETS

The University's net assets consisted of the following as of June 30, 2021 and 2020 (in thousands of dollars):

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Without donor restrictions | With donor restrictions | Total | Without donor restrictions | With donor restrictions | Total |
| **NATURE OF SPECIFIC NET ASSETS** | | | | | | |
| Perpetual endowment funds | | $ 8,562,120 | **$ 8,562,120** | | $ 8,178,308 | **$ 8,178,308** |
| Endowment funds and appreciation subject to distribution policy and appropriation | | 33,434,803 | **33,434,803** | | 24,628,858 | **24,628,858** |
| Endowment funds without restriction, board designated and subject to distribution policy | $ 9,423,055 | | **9,423,055** | $ 7,374,810 | | **7,374,810** |
| Pledge balances | | 1,265,091 | **1,265,091** | | 1,319,353 | **1,319,353** |
| Interests in trusts held by others | | 480,684 | **480,684** | | 393,051 | **393,051** |
| **TOTAL ENDOWMENT** | **9,423,055** | **43,742,698** | **53,165,753** | **7,374,810** | **34,519,570** | **41,894,380** |
| Operating | 6,588,391 | | **6,588,391** | 4,922,307 | | **4,922,307** |
| Unexpended contributions and endowment distributions | | 2,747,969 | **2,747,969** | | 2,655,577 | **2,655,577** |
| Student loan funds | | 99,631 | **99,631** | | 99,259 | **99,259** |
| **TOTAL GENERAL OPERATING ACCOUNT** | **6,588,391** | **2,847,600** | **9,435,991** | **4,922,307** | **2,754,836** | **7,677,143** |
| Split interest agreements *(Note 9)* | | **773,330** | **773,330** | | **598,193** | **598,193** |
| **TOTAL NET ASSETS** | **$ 16,011,446** | **$ 47,363,628** | **$ 63,375,074** | **$ 12,297,117** | **$ 37,872,599** | **$ 50,169,716** |

### Endowment

The University's endowment consists of 14,172 separate funds established over many years for a wide variety of purposes. Endowment fund balances are classified and reported in accordance with donor specifications and state law. The endowment includes both donor-restricted endowment funds and funds functioning as endowment which are not subject to donor-imposed restrictions, however decisions to spend their principal require the approval of the Corporation and therefore are classified as Board-designated endowment funds. The majority of the endowment is invested in the GIA *(Note 3)*.

The University is also the beneficiary of certain irrevocable trusts held and administered by others. The estimated fair values of trust assets, which include the present values of expected future cash flows from outside trusts and the fair value of the underlying assets of perpetual trusts, are recognized as assets and increases in net assets when the required trust documentation is provided to the University.

The fair values of these trusts are provided by the external trustees and are adjusted annually by the University. These are included as Level 3 investments in the fair value hierarchy table in *Note 3*.

The University's endowment distribution policies are designed to preserve the value of the endowment in real terms (after inflation) and generate a predictable stream of available income. Each fall, the Corporation approves the endowment distribution for the following fiscal year. Distribution from an underwater endowment fund (a fund below its historic dollar value) could continue in limited and defined circumstances under the University's endowment distribution policy. To the extent that the fair value of a donor restricted endowment fund falls below its historic dollar value it would be reported as a reduction of net assets with donor restrictions.

At June 30, 2021 and 2020, funds in a deficit position were reported in net assets with donor restrictions and are comprised as follows (in thousands):

| | 2021 | 2020 |
|---|---|---|
| Fair value of underwater endowment funds | **$ 23,401** | $ 20,355 |
| Historic dollar value | **24,253** | 22,605 |
| **TOTAL DEFICIT OF UNDERWATER ENDOWMENT FUNDS** | **$ (852)** | **$ (2,250)** |

The endowment distribution is based in part on presumptive guidance from a formula that is intended to provide budgetary stability by smoothing the impact of annual investment gains and losses. The formula's inputs reflect expectations about long-term returns and inflation rates. For fiscal year 2021, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 5.2% of the fair value of the endowment invested in the GIA as of the beginning of the fiscal year. The total endowment distribution made available for operations was $2.0 billion in fiscal year 2021 and 2020.

Each year the Corporation also approves certain decapitalizations from the endowment to support strategic, mission-critical activities or objectives that are typically one-time or time-limited and therefore, are excluded from net operating surplus. These decapitalizations totaled $32.8 million and $35.7 million in fiscal year 2021 and 2020, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 5.2% in fiscal year 2021 and 2020.

### General operating account

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. The GOA accepts, manages, and pays interest on deposits made by University departments; invests surplus working capital; makes loans; and arranges external financing for major capital projects. It is used to manage, control, and execute all University financial transactions, except for those related to investment activities conducted by HMC.

## 9. SPLIT INTEREST AGREEMENTS

Under split interest agreements, donors enter into trust or other arrangements with the University in which the University receives benefits that are shared with other beneficiaries and institutions. Split interest agreement (SIA) investment assets are invested primarily in the GIA and publicly-traded securities, a small segment is managed by an external advisor, and all are recorded in the "Investment portfolio, at fair value" in the University's *Balance Sheets*. Additional disclosures are included in *Note 3*. Associated liabilities are recorded at the present value of estimated future payments due to beneficiaries and other institutions. These liabilities are calculated using the University's current taxable unsecured borrowing rate of 1.0% and 0.8% as of June 30, 2021 and 2020, respectively. All split interest agreement net assets and the respective activity are reported within net assets with donor restrictions. Upon termination of a split interest agreement, the net assets are transferred to the GOA or endowment accordingly.

The changes in split interest agreement net assets for fiscal years 2021 and 2020 were as follows (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Investment return: | | |
| Investment income | **$ 9,961** | $ 13,101 |
| Realized and change in unrealized appreciation, net | **402,937** | 37,420 |
| Total investment return | **412,898** | **50,521** |
| | | |
| Gifts *(Note 14)*[1] | **10,761** | 9,709 |
| Payments to annuitants | **(71,358)** | (66,351) |
| Transfers to endowment | **(16,830)** | (12,136) |
| Transfers between SIA and the GOA | **(21,019)** | (11,916) |
| Change in liabilities and other adjustments | **(139,315)** | 54,997 |
| **NET CHANGE DURING THE YEAR** | **175,137** | **24,824** |
| Total split interest agreement net assets, beginning of year | **598,193** | 573,369 |
| **TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, END OF YEAR** | **$ 773,330** | **$ 598,193** |

[1] *Shown at net present value. The undiscounted value of these gifts was $35,078 and $27,237 for the years ended June 30, 2021 and 2020, respectively.*

Split interest agreement net assets as of June 30, 2021 and 2020 consisted of the following (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Split interest agreement investments *(Note 3)* | | |
| Charitable remainder trusts | **$ 1,170,553** | $ 936,417 |
| Charitable lead trusts | **116,254** | 94,401 |
| Charitable gift annuities | **342,917** | 255,696 |
| Pooled income funds | **162,963** | 131,263 |
| Total split interest agreement investments[1] | **1,792,687** | **1,417,777** |
| | | |
| Liabilities due under split interest agreements: | | |
| Amounts due to beneficiaries | **(930,260)** | (751,217) |
| Amounts due to other institutions | **(89,097)** | (68,367) |
| Total liabilities due under split interest agreements | **(1,019,357)** | **(819,584)** |
| | | |
| **TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, END OF YEAR** | **$ 773,330** | **$ 598,193** |

[1] *For the year ended June 30, 2021, $1,021,209 of SIA investments are held in the pooled general investment account and $771,478 of SIA investments are held in the other investments outside the general investment account. For the year ended June 30, 2020, $803,490 of SIA investments are held in the pooled general investment account and $614,287 of SIA investments are held in the other investments outside the general investment account. Refer to* Note 3.

## 10. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2021 and 2020 were as follows (in thousands of dollars):

| | Fiscal year of issue | Fiscal year of final maturity[1] | Effective rate[2] | Outstanding principal 2021[3] | Outstanding principal 2020[3] |
|---|---|---|---|---|---|
| **TAX-EXEMPT BONDS:** | | | | | |
| | | | | | |
| Variable-rate demand bonds: | | | | | |
| Series R – daily | 2000-2006 | 2032 | 0.03% | $ 131,200 | $ 131,200 |
| Series Y – weekly | 2000 | 2036 | 0.06% | 117,905 | 117,905 |
| Total variable-rate bonds | | | 0.04% | 249,105 | 249,105 |
| | | | | | |
| Fixed-rate bonds: | | | | | |
| Series 2010A | 2010 | 2022 | 4.9% | 49,590 | 49,590 |
| Series 2010B | 2011 | 2024 | 4.9% | | 97,740 |
| Series 2016A | 2017 | 2041 | 4.0% | 1,487,675 | 1,513,780 |
| Series 2020A | 2020 | 2031 | 4.0% | 346,680 | 346,680 |
| Total fixed-rate bonds | | | 4.0% | 1,883,945 | 2,007,790 |
| | | | | | |
| **TOTAL TAX-EXEMPT BONDS** | | | **3.6%** | **2,133,050** | **2,256,895** |
| | | | | | |
| **TAXABLE BONDS** | | | | | |
| | | | | | |
| Fixed-rate bonds: | | | | | |
| Series 2008A | 2008 | 2039 | 5.6% | 243,000 | 243,000 |
| Series 2008D | 2009 | 2039 | 6.5% | 500,000 | 500,000 |
| Series 2010C | 2011 | 2041 | 4.9% | 300,000 | 300,000 |
| Series 2013A | 2013 | 2038 | 3.4% | 402,000 | 402,000 |
| Series 2016B | 2017 | 2057 | 3.3% | 1,000,000 | 1,000,000 |
| Series 2020B | 2020 | 2051 | 2.5% | 500,000 | 500,000 |
| Total fixed-rate bonds | | | 4.1% | 2,945,000 | 2,945,000 |
| | | | | | |
| **TOTAL TAXABLE BONDS** | | | **4.1%** | **2,945,000** | **2,945,000** |
| | | | | | |
| Notes payable | Various | Various | Various | 88,355 | 87,841 |
| Unamortized original issuance premium/discount, net | | | | 355,467 | 395,046 |
| Unamortized bond issuance costs | | | | (18,673) | (20,103) |
| **TOTAL BONDS AND NOTES PAYABLE** | | | **3.9%** | **$ 5,503,199** | **$ 5,664,679** |

[1] *The weighted average maturity of the portfolio on June 30, 2021 was 18.3 years.*
[2] *For fixed-rate bonds the effective rate is calculated as: coupon rate x (par value / book value*). For variable rate bonds the effective rate is the average rate of the past one year. Effective rates are exclusive of the Series Y interest rate exchange agreement, which would increase the overall portfolio rate by 0.07% (3.95% vs. 3.88%). *Book value = par value + unamortized original issuance premium - unamortized original issuance discount, underwriter's discount, and cost of issuance.*
[3] *Par only — balances exclude original issuance premiums/discounts.*

Interest expense related to bonds and notes payable, net of amortization and accretion, was $180.6 million and $179.5 million for fiscal 2021 and 2020, respectively. The interest expense in the *Statement of Changes in Net Assets with General Operating Account Detail* includes additional components related to capital leases. Excluding unamortized discounts and premiums, unamortized underwriter's discount and unamortized cost of issuance, scheduled principal payments are (in thousands of dollars):

| Fiscal year | Principal payments |
|---|---|
| 2022 | $ 96,904 |
| 2023 | 42,060 |
| 2024 | 92,253 |
| 2025 | 41,441 |
| 2026 | 100,967 |
| Thereafter | 4,792,780 |
| **TOTAL PRINCIPAL PAYMENTS** | **$ 5,166,405** |

Bonds and notes payable decreased from $5.7 billion to $5.5 billion, primarily due to maturing fixed rate bonds and fixed rate bonds paid down at their call date.

The University is rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Global Ratings. The Moody's Investors Service rating was re-affirmed in February 2021 and the Standard & Poor's rating was re-affirmed in March 2021.

The University has one unsecured, revolving credit facility with a syndicate of banks totaling $1.5 billion, which expires in March 2024. The facility was renewed in March of 2021. There was no outstanding drawn balance on the credit facility at June 30, 2021.

The University has taxable commercial paper available totaling $2 billion. There was no outstanding drawn balance on the taxable commercial paper line at June 30, 2021.

The University has tax-exempt commercial paper available totaling $1 billion. There was no outstanding drawn balance on the tax-exempt commercial paper line at June 30, 2021.

As of June 30, 2021, the University had $249.1 million of variable rate demand bonds outstanding with either a daily or weekly interest rate reset. In the event that the University receives notice of any optional tender on its variable rate demand bonds, or if the bonds become subject to mandatory tender, the purchase price of the bonds will be paid from the remarketing of such bonds. However, if the remarketing proceeds are insufficient, the University will have a general obligation to purchase the bonds tendered with cash on hand.

### Interest rate exchange agreements

In fiscal 2021, the University had in place one interest rate exchange agreement, used to manage the interest cost and risk associated with a portion of its outstanding variable rate debt.

The fair value of the interest rate exchange agreement was $(31.3) million and $(44.2) million as of June 30, 2021 and 2020, respectively, and is recorded in "Other liabilities associated with the investment portfolio" on the University's *Balance Sheets*.

## 11. EMPLOYEE BENEFITS

The University offers current employees a choice of health plans, a dental plan, short-term and long-term disability plans, life insurance, tuition assistance, and a variety of other benefits such as subsidized passes for public transportation and for Harvard athletic facilities. In addition, the University has retirement plans covering substantially all employees.

The University uses a measurement date of June 30 for its pension and postretirement health plans.

### 457(b) deferred compensation plan

The University offers a non-qualified deferred compensation plan under Internal Revenue Code 457(b) to a select group of employees. There is no University contribution related to the plan. The University has recorded both an asset and a liability related to the plan of $207.8 million as of June 30, 2021 and $163.6 million as of June 30, 2020; the assets are included in "Prepayments and deferred charges" and the liabilities are included in "Deferred revenue and other liabilities" on the University's *Balance Sheets*.

## Pension benefits

All eligible faculty members and staff are covered by retirement programs that include a defined benefit component, a defined contribution component, or a combination of the two.

In accordance with the Employee Retirement Income Security Act (ERISA) requirements, the University has established a trust to hold plan assets for its defined benefit pension plans. The fair value of the trust's assets was $1.1 billion and $959.4 million as of June 30, 2021 and 2020, respectively. During fiscal years 2021 and 2020, the University made cash contributions to the defined benefit pension plan of $61.2 million and $53.5 million, respectively. The University recorded expenses for its defined contribution plans of $153.4 million for fiscal year 2021 and 2020.

## Postretirement health benefits

The University provides postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2021, the University had internally designated and invested $1.0 billion in the GIA to fund the postretirement health benefit accrued liability of $1.0 billion. As of June 30, 2020, the University had internally designated and invested $779.8 million to fund the postretirement health benefit accrued liability of $955.6 million.

The following table sets forth the pension and postretirement plans' funded status that is reported in the *Balance Sheets* as of June 30, 2021 and 2020 (in thousands of dollars):

| | Pension benefits | | Postretirement health benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation, beginning of year | **$ 1,220,094** | $ 1,129,397 | **$ 955,571** | $ 854,639 |
| Service cost | **12,950** | 11,926 | **32,961** | 31,880 |
| Interest cost | **36,673** | 40,625 | **32,728** | 31,529 |
| Plan participants' contributions | | | **8,361** | 6,999 |
| Plan change | | | **0** | (10,339) |
| Gross benefits paid | **(103,677)** | (45,090) | **(25,125)** | (24,256) |
| Actuarial (gain)/loss | **(26,555)** | 42,471 | **(4,101)** | 65,119 |
| Special termination benefits[1] | **460** | 40,765 | | |
| **PROJECTED BENEFIT OBLIGATION, END OF YEAR[2]** | **1,139,945** | **1,220,094** | **1,000,395** | **955,571** |
| Change in plan assets: | | | | |
| Fair value of plan assets, beginning of year | **959,414** | 863,492 | | |
| Actual return on plan assets | **144,732** | 87,479 | | |
| Employer contributions | **61,224** | 53,533 | **16,765** | 17,257 |
| Plan participants' contributions | | | **8,361** | 6,999 |
| Gross benefits paid | **(103,677)** | (45,090) | **(25,126)** | (24,256) |
| **FAIR VALUE OF PLAN ASSETS, END OF YEAR** | **1,061,693** | **959,414** | **0** | **0** |
| **UNFUNDED STATUS[3]** | **$ (78,252)** | **$ (260,680)** | **$ (1,000,395)** | **$ (955,571)** |

1 *Represents costs associated with a voluntary early retirement program offered to plan participants.*
2 *Measurement of the University's pension obligation including assumed salary increases (required by GAAP).*
3 *These amounts totaling $1,078,647 as of June 30, 2021 and $1,216,251 as of June 30, 2020 are included in the "Accrued Retirement Obligations" line in the Balance Sheets.*

The accumulated pension benefit obligation (ABO) is a measurement of the University's pension benefit obligation, based on past and present compensation levels and does not include assumed salary increases. The ABO was $1.0 billion at June 30, 2021 and 2020. The funded status disclosed above has been prepared in accordance with pension accounting rules. When measured on an IRS funding basis, which informs the University's required cash contribution amount, the plan was overfunded at January 1, 2021.

## Net periodic benefit cost

Components of net periodic benefit cost and other amounts recognized in the *Statements of Changes in Net Assets with General Operating Account Detail* are summarized as follows for the years ended June 30, 2021 and 2020 (in thousands of dollars):

| | Pension benefits | | Postretirement health benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Components of net periodic benefit cost: | | | | |
| Operating | | | | |
| Service cost | **$ 12,950** | $ 11,926 | **$ 32,961** | $ 31,880 |
| Special termination benefits | **460** | 40,765 | | |
| Total operating activity | **13,410** | 52,691 | **32,961** | 31,880 |
| Non-operating | | | | |
| Interest cost | **36,673** | 40,625 | **32,728** | 31,529 |
| Expected return on plan assets | **(47,300)** | (44,856) | | |
| Amortization of: | | | | |
| Actuarial loss/(gain) | **16,230** | 15,682 | **(5,116)** | (11,189) |
| Prior service cost/(credit) | **288** | 288 | **(7,929)** | (7,126) |
| Total non-operating activity[1] | **5,891** | 11,739 | **19,683** | 13,214 |
| Total net periodic benefit cost | **19,301** | **64,430** | **52,644** | **45,094** |
| Other amounts recognized in non-operating activity in unrestricted net assets: | | | | |
| Current year net actuarial loss/(gain) | **(123,987)** | (151) | **(4,101)** | 65,119 |
| Current year net prior service cost | | | **0** | (10,339) |
| Amortization of: | | | | |
| Prior service (cost)/credit | **(288)** | (288) | **7,929** | 7,126 |
| Actuarial (loss)/gain | **(16,230)** | (15,682) | **5,116** | 11,189 |
| Total other amounts recognized in non-operating activity[1] | **(140,505)** | **(16,121)** | **8,944** | **73,095** |
| **TOTAL RECOGNIZED IN *STATEMENTS OF CHANGES IN NET ASSETS WITH GENERAL OPERATING ACCOUNT DETAIL*** | **$ (121,204)** | **$ 48,309** | **$ 61,588** | **$ 118,189** |

[1] *These amounts totaling ($105,987) in fiscal year 2021 and $81,927 in fiscal year 2020 include gains and losses and other changes in the actuarially determined benefit obligations arising in the current period but that have not yet been reflected within net periodic benefit cost/(income) and are included in the "Change in Retirement Obligations" line in the* Statements of Changes in Net Assets with General Operating Account Detail.

Cumulative amounts recognized as non-operating changes in net assets without donor restrictions are summarized as follows for the years ended June 30, 2021 and 2020 (in thousands of dollars):

| | Pension benefits | | Postretirement health benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Net actuarial loss/(gain) | **$ 40,596** | $ 180,814 | **$ (167,932)** | $ (168,947) |
| Prior service cost/(credit) | **607** | 894 | **(41,670)** | (49,599) |
| **CUMULATIVE AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS** | **$ 41,203** | **$ 181,708** | **$ (209,602)** | **$ (218,546)** |

The estimated net actuarial loss and prior service cost for the defined benefit plan that will be amortized from net assets without donor restrictions into net periodic benefit (income)/cost in fiscal year 2022 are $7.2 million and $0.3 million, respectively. The estimated net actuarial gain and estimated prior service credit for the postretirement health benefit that will be amortized from net assets without donor restrictions into net periodic benefit (income)/cost in fiscal year 2022 are ($4.6) million and ($7.9) million, respectively.

Other assumptions and health care cost trend rates used in determining the year end obligation as well as the net periodic benefit (income)/cost of the pension and postretirement health plans are summarized as follows for fiscal years 2021 and 2020:

| | Pension benefits | | Postretirement health benefits | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Weighted-average assumptions used to determine benefit obligation as of June 30: | | | | |
| Discount rate | **3.15%** | 3.15% | **3.20%** | 3.35% |
| Compensation increase trend: | | | | |
| Average rate | **3.50%** | 3.50% | **3.50%** | 3.50% |
| Cash balance (or similar formula) interest crediting rate | **5.25%** | 5.25% | N/A | N/A |
| Pension increases for in-payment benefits increase trend: | | | | |
| Average rate | **0.25%** | N/A | N/A | N/A |
| Initial rate | N/A | 0.00% | N/A | N/A |
| Ultimate rate | N/A | 0.25% | N/A | N/A |
| Year of ultimate | N/A | 2025 | N/A | N/A |
| Health care cost trend rate: | | | | |
| Current rate | N/A | N/A | **6.50%** | 6.50% |
| Ultimate rate | N/A | N/A | **4.75%** | 4.75% |
| Year of ultimate | N/A | N/A | **2025** | 2025 |
| Weighted-average assumptions used to determine net periodic benefit (income)/cost: | | | | |
| Discount rate | **3.15%** | 3.65% | **3.35%** | 3.60% |
| Expected long-term rate of return on plan assets | **5.50%** | 5.50% | N/A | N/A |
| Compensation increase trend: | | | | |
| Average rate | **3.50%** | 3.50% | **3.50%** | 3.50% |
| Initial rate | **0.00%** | N/A | N/A | N/A |
| Ultimate rate | **0.25%** | N/A | N/A | N/A |
| Year of ultimate | **2025** | N/A | N/A | N/A |
| Pension increases for in-payment benefits increase trend: | | | | |
| Average rate | **0.00%** | 0.15% | N/A | N/A |
| Health care cost trend rate: | | | | |
| Initial rate | N/A | N/A | **6.50%** | 5.00% |
| Ultimate rate | N/A | N/A | **4.75%** | 4.75% |
| Year of ultimate | N/A | N/A | **2025** | 2023 |

As an indicator of sensitivity, a one percentage point change in assumed health care cost trend rate would affect 2021 as shown in the following table (in thousands of dollars):

| | 1% point increase | 1% point decrease |
|---|---|---|
| Effect on 2021 postretirement health benefits service and interest cost | $ 13,947 | $ (15,316) |
| Effect on postretirement health benefits obligation as of June 30, 2021 | 191,261 | (149,959) |

The expected return on pension plan assets is determined by utilizing an independent advisor's capital markets model, which takes into account the expected real return, before inflation, for each of the pension portfolio's asset classes, as well as the correlation of any one asset class to every other asset class. This model calculates the real returns and correlations and derives an expected real return for the entire portfolio, given the percentage weighting allocated to each asset class. After calculating the expected real return, an assessment is made to accommodate the expected inflation rate for the forthcoming period. The final expected return on assets is the aggregate of the expected real return plus the expected inflation rate.

## Plan assets

The actual asset allocation of the investment portfolio for the pension plan at June 30, 2021 and 2020, along with target allocations for June 30, 2022, is as follows:

| | 2022 Target | June 30, 2021 | June 30, 2020 |
|---|---|---|---|
| Asset allocation by category for pension plan: | | | |
| Fixed income securities | 70-80% | 77.0% | 59.0% |
| Equity securities | 15-30 | 19.8 | 36.2 |
| Cash | 1-5 | 3.2 | 1.5 |
| Hedge funds | 0 | 0.0 | 3.3 |
| **TOTAL OF ASSET ALLOCATION CATEGORIES** | | **100.0%** | **100.0%** |

The University's investment strategy for the pension portfolio is to manage the assets across a broad and diversified range of investment categories, both domestic and international. The objective is to achieve a risk-adjusted return that is in line with the long-term obligations that the University has to the pension plan beneficiaries. During fiscal year 2021, the University increased its allocation to fixed income securities to manage the interest rate volatility associated with its pension obligations. The University expects to keep this strategy in future years. The investment program is also managed to comply with all ERISA regulations.

The following is a summary of the levels within the fair value hierarchy for the pension plan assets subject to fair value measurement as of June 30, 2021 and 2020 (in thousands of dollars):

| | 2021 | | | | | 2020 |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | NAV as practical expedient | Total | Total |
| **PLAN ASSETS:** | | | | | | |
| Cash and short-term investments | $ 57,999 | | | | **$ 57,999** | $ 25,541 |
| Domestic equity | 104,391 | | | | **104,391** | 182,940 |
| Foreign equity | 31,792 | | | $ 43,730 | **75,522** | 99,918 |
| Domestic fixed income | 208,742 | $ 198,379 | | 339,858 | **746,979** | 542,181 |
| Foreign fixed income | | 8,479 | | | **8,479** | 16,213 |
| Emerging market equity and debt | 22,895 | | | | **22,895** | 57,584 |
| Hedge funds | | | | 321 | **321** | 30,700 |
| Private equity | | | | 1,799 | **1,799** | 2,184 |
| Due from brokers | | | | | **0** | 67 |
| High yield | | | | 41,215 | **41,215** | 0 |
| **PLAN ASSETS SUBJECT TO FAIR VALUE LEVELING** | **$ 425,819** | **$ 206,858** | **$ 0** | **$ 426,923** | **$ 1,059,600** | **$ 957,328** |
| Other assets not subject to fair value | | | | | **2,126** | 2,086 |
| **TOTAL PLAN ASSETS** | | | | | **$ 1,061,726** | **$ 959,414** |
| **PLAN LIABILITIES:** | | | | | | |
| Due to brokers | (33) | | | | **(33)** | |
| **PLAN LIABILITIES SUBJECT TO FAIR VALUE LEVELING** | **$ (33)** | **$ 0** | **$ 0** | **$ 0** | **$ (33)** | **$ 0** |
| Other liabilities not subject to fair value | | | | | | |
| **TOTAL PLAN LIABILITIES** | | | | | **$ (33)** | **$ 0** |

## Expected future benefit payments

Employer contributions of $20.0 million are expected for fiscal year 2022 to fund the pension benefit plan.

The following table summarizes expected benefit payments and subsidies for pension and other postretirement health benefits for the University (in thousands of dollars):

| | Expected benefit payments | |
|---|---|---|
| Fiscal year | Pension | Postretirement health |
| 2022 | $ 78,669 | $ 25,926 |
| 2023 | 62,790 | 28,164 |
| 2024 | 64,342 | 29,905 |
| 2025 | 65,800 | 31,516 |
| 2026 | 67,129 | 33,409 |
| Thereafter | 349,262 | 199,047 |

## 12. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2021 and 2020 is summarized as follows (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Scholarships and other student awards: | | |
| Scholarships applied to student income[1] | **$ 435,959** | $ 480,989 |
| Scholarships and other student awards paid directly to students | **160,744** | 163,618 |
| Total scholarships and other student awards | **596,703** | **644,607** |
| | | |
| Student employment | **84,273** | 81,922 |
| Student loans | **13,064** | 14,765 |
| Agency financial aid[2] | **21,279** | 19,839 |
| **TOTAL STUDENT FINANCIAL AID** | **$ 715,319** | **$ 761,133** |

[1] *Includes $164,232 and $202,221 in fiscal 2021 and 2020, respectively, of undergraduate scholarships applied to student income.*
[2] *Represents aid from sponsors for which the University acts as an agent for the recipient.*

## 13. SPONSORED SUPPORT

Total expenditures funded by US government sponsors or by institutions that subcontract federally sponsored projects to the University were $625.0 million and $616.2 million in fiscal year 2021 and 2020, respectively. The University's principal source of federally sponsored funds is the Department of Health and Human Services. The University also has many non-federal sources of sponsored awards and grants, including corporations, foundations, state and local governments, foreign governments, and research institutes.

Sponsored grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of related indirect costs is generally recorded at fixed or predetermined rates negotiated with the federal government and other sponsors. Predetermined federal indirect cost rates have been established for the University Area, the Medical School (including the School of Dental Medicine), and the T.H. Chan School of Public Health through fiscal year 2024. Funds received for federally sponsored activity are subject to audit.

## 14. GIFTS

Gifts are classified as net assets with or without restrictions in accordance with donor specifications.

Additionally, gifts are categorized by purpose as "Current use", "Non-federal sponsored grants", "Endowment funds", "Split interest agreements", or "Loan funds and facilities".

Gifts received for the year ended June 30, 2021 are summarized as follows (in thousands of dollars):

| | 2021 | | |
|---|---|---|---|
| | Gifts received | Donor redesignations/ other changes | Total |
| Current use | $ 545,756 | $ (4,797) | **$ 540,959** |
| Non-federal sponsored grants | 211,571 | (2,789) | **208,782** |
| Endowment funds | 462,991 | 2,028 | **465,019** |
| Split interest agreements[1] | 10,761 | | **10,761** |
| Loan funds and facilities | 133,211 | 2,277 | **135,488** |
| **TOTAL GIFTS** | **$ 1,364,290** | **$ (3,281)** | **$ 1,361,009** |

[1] *Shown at net present value. The undiscounted value of these gifts was $35,078 for the year ended June 30, 2021.*

Gifts received for the year ended June 30, 2020 are summarized as follows (in thousands of dollars):

| | 2020 | | |
|---|---|---|---|
| | Gifts received | Donor redesignations/ other changes | Total |
| Current use | $ 483,673 | $ (6,109) | **$ 477,564** |
| Non-federal sponsored grants | 206,394 | (3,767) | **202,627** |
| Endowment funds | 463,743 | 5,460 | **469,203** |
| Split interest agreements[1] | 9,709 | | **9,709** |
| Loan funds and facilities | 51,241 | 207 | **51,448** |
| **TOTAL GIFTS** | **$ 1,214,760** | **$ (4,209)** | **$ 1,210,551** |

[1] *Shown at net present value. The undiscounted value of these gifts was $27,237 for the year ended June 30, 2020.*

## 15. OTHER REVENUE

The major components of other revenue for the years ended June 30, 2021 and 2020 were as follows (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Publications and royalties from copyrights | **$ 253,113** | $ 239,002 |
| Royalties from the commercialization of intellectual property[1] | **107,164** | 61,947 |
| Services income | **96,443** | 114,410 |
| Rental and parking[2] | **87,646** | 125,573 |
| Health and clinic fees | **61,461** | 68,813 |
| Sales income | **23,703** | 28,460 |
| Interest income | **7,079** | 9,364 |
| Other student income | **3,582** | 4,215 |
| Other | **53,724** | 47,570 |
| **TOTAL OTHER REVENUE** | **$ 693,915** | **$ 699,354** |

[1] *Excludes distribution to external parties.*
[2] *The University is the lessor of space and facilities under operating leases, the income from which is included in rental and parking.*

## 16. OTHER EXPENSES

The major components of other expenses for the years ended June 30, 2021 and 2020 were as follows (in thousands of dollars):

| | 2021 | 2020 |
|---|---|---|
| Subcontract expenses under sponsored projects | **$ 161,910** | $ 152,916 |
| Advertising | **40,444** | 38,022 |
| Publishing | **39,316** | 45,164 |
| Taxes and fees | **35,294** | 31,597 |
| Fixed asset impairments | **20,804** | 182,435 |
| Insurance | **15,749** | 17,176 |
| Postage | **13,265** | 14,765 |
| Telephone | **10,968** | 12,783 |
| Travel | **1,965** | 71,080 |
| Other | **45,110** | 64,959 |
| **TOTAL OTHER EXPENSES** | **$ 384,825** | **$ 630,897** |

## 17. FUNCTIONAL AND NATURAL CLASSIFICATION OF OPERATING EXPENSES

Operating expenses are allocated functionally on a direct basis. Operations and maintenance expenses are allocated based on square footage.

Operating expenses by functional classification for the years ended June 30, 2021 and 2020 were as follows (in thousands of dollars):

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Instruction and academic support | Research[1] | Student services and support | Institutional support and auxiliary | Total |
| Salaries and wages | $ 1,111,716 | $ 306,555 | $ 140,842 | $ 517,552 | **$ 2,076,665** |
| Employee benefits | 305,452 | 76,866 | 52,679 | 143,129 | **578,126** |
| Services purchased | 354,294 | 91,675 | 45,082 | 153,648 | **644,699** |
| Depreciation | 47,187 | 147,189 | 16,487 | 199,366 | **410,229** |
| Space and occupancy | 82,442 | 56,063 | 27,742 | 150,669 | **316,916** |
| Supplies and equipment | 68,242 | 55,497 | 34,903 | 52,055 | **210,697** |
| Interest | 17,840 | 31,203 | 12,653 | 121,759 | **183,455** |
| Scholarships and other student awards | | | 160,744 | | **160,744** |
| Other expense and overhead allocations | (39,494) | 400,693 | 15,301 | 8,325 | **384,825** |
| **TOTAL EXPENSES** | **$ 1,947,679** | **$ 1,165,741** | **$ 506,433** | **$ 1,346,503** | **$ 4,966,356** |

[1] *The methodology used to allocate expenses for financial statement purposes is different than methodologies used for other purposes, such as governmental surveys.*

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Instruction and academic support | Research[1] | Student services and support | Institutional support and auxiliary | Total |
| Salaries and wages | $ 1,090,715 | $ 304,443 | $ 148,043 | $ 588,310 | **$ 2,131,511** |
| Employee benefits | 287,492 | 76,702 | 52,259 | 204,299 | **620,752** |
| Services purchased | 350,815 | 86,969 | 56,722 | 175,979 | **670,485** |
| Depreciation | 46,454 | 117,990 | 17,351 | 195,060 | **376,855** |
| Space and occupancy | 103,658 | 59,117 | 30,645 | 170,743 | **364,163** |
| Supplies and equipment | 82,003 | 49,274 | 39,975 | 72,618 | **243,870** |
| Interest | 16,908 | 30,380 | 12,503 | 120,936 | **180,727** |
| Scholarships and other student awards | | | 163,618 | | **163,618** |
| Other expense and overhead allocations | 21,252 | 399,932 | 25,281 | 184,432 | **630,897** |
| **TOTAL EXPENSES** | **$ 1,999,297** | **$ 1,124,807** | **$ 546,397** | **$ 1,712,377** | **$ 5,382,878** |

[1] *The methodology used to allocate expenses for financial statement purposes is different than methodologies used for other purposes, such as governmental surveys.*

## 18. COMMITMENTS AND CONTINGENCIES

### Lease commitments

The University is the lessee of equipment and space under operating (rental) and finance leases. The University determines whether a contract is a lease at inception. Identified leases are subsequently measured, classified, and recognized at lease commencement. The University categorizes leases with contractual terms longer than twelve months as either operating or finance. The University's leases generally have terms that range from one to five years for equipment and one to twenty years for property, with certain leases inclusive of renewal options if they are considered to be reasonably assured at lease commencement. Right of use assets and lease liabilities for operating leases are included in "Operating leases—right of use assets" and "Operating lease liabilities", respectively, in the *Balance Sheets*. Finance lease right of use assets and lease liabilities are included in "Fixed assets" and "Deferred revenue and other liabilities", respectively, in the *Balance Sheets*. Lease assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Operating and finance lease right of use assets and associated lease liabilities are recognized based on the present value of future minimum lease payments to be made over the expected lease term, using the collateralized incremental borrowing rate at the commencement date in determining the present value of future payments. Rent expense related to operating leases, including short-term leases and variable lease payments, was $95.4 million and $93.9 million in fiscal year 2021 and 2020, respectively.

Maturity analysis of the annual undiscounted cash flows reconciled to the carrying value of the operating and finance lease liabilities (in thousands of dollars):

| | Operating | Finance |
|---|---|---|
| 2022 | $ 83,819 | $ 13,594 |
| 2023 | 80,491 | 13,655 |
| 2024 | 71,463 | 11,271 |
| 2025 | 64,936 | 11,660 |
| 2026 | 62,073 | 21,749 |
| Thereafter | 499,558 | 107,020 |
| **TOTAL LEASE PAYMENTS** | 862,340 | 178,949 |
| Less: Imputed Interest | (159,468) | (82,126) |
| **PRESENT VALUE OF LEASE LIABILITIES** | **$ 702,872** | **$ 96,823** |

Weighted-average remaining lease term and discount rate for operating and finance leases were as follows:

| | June 30, 2021 |
|---|---|
| Weighted Average Remaining Lease Term | |
| Operating Leases | 15.7 YEARS |
| Finance Leases | 14.7 YEARS |
| Weighted Average Discount Rate | |
| Operating Leases | 2.4% |
| Finance Leases | 2.4% |

The University leases properties to customers under agreements that are classified as operating or sales-type leases. Property leased to others in operating lease arrangements are included in “Fixed assets” in the *Balance Sheets*. Revenue is recognized to the extent that amounts are determined to be collectible.

## Fixed asset-related commitments

The University has various commitments for capital projects involving construction and renovation of certain facilities, real estate acquisitions, and equipment purchases, for which the outstanding commitments as of June 30, 2021 totaled approximately $197.0 million.

## Environmental remediation

The University is subject to laws and regulations concerning environmental remediation and has established reserves for potential obligations that management considers to be probable and for which reasonable estimates can be made. These estimates may change substantially depending on new information regarding the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. Costs of future environmental remediation have been discounted to their net present value. Management is not aware of any existing conditions that it believes are likely to have a material adverse effect on the University’s financial position, changes in net assets, or cash flows.

## General

The University is a defendant in various legal actions arising from the normal course of its operations. While it is not possible to predict accurately or determine the eventual outcome of such actions, management believes that the outcome of these proceedings will not have a material adverse effect on the University’s financial position, changes in net assets, or cash flows.

The University has evaluated subsequent events through October 13, 2021, the date the financial statements were issued. The University has concluded that no material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.