HARVARD UNIVERSITY

Financial Report

FISCAL YEAR 2022

Message from the President

I am pleased to submit Harvard University's financial results for fiscal year 2022.

Guided by health and safety protocols, our community saw the safe return of students, faculty, and staff to campus last year. Emerging variants and subvariants were navigated with discipline and prudence, and improved health conditions allowed us to ease restrictions and increase our on-campus activities in the latter half of the spring semester. In May, we held our usual Commencement for the Class of 2022 and, two days later, welcomed back to campus the Classes of 2020 and 2021 for a long-awaited celebration. The preponderance of joy and excitement at these events was a spectacular affirmation of our community's enduring strength and spirit.

Across Harvard, faculty, students, and staff continue to advance scholarship and teaching on the world's most significant challenges. This fall ushers in the launch of two groundbreaking research entities: the Salata Institute for Climate and Sustainability and the Kempner Institute for the Study of Natural and Artificial Intelligence. Building on the report and recommendations released in the spring, the Presidential Initiative on Harvard and the Legacy of Slavery has begun its implementation work supported by a $100 million commitment by the University, most of it endowed. We are making further progress in Allston with the approval for the first phase of the University's Enterprise Research Campus (ERC), which will serve as an inclusive center for invention, collaboration, and entrepreneurship, as well as with the creation of additional affordable housing and the new home of the American Repertory Theater. These next steps will bring together partners from Greater Boston and beyond, expanding our community to increase vibrancy along and around Western Avenue.

As we grow opportunities, we work to ensure that those opportunities are within reach for talented individuals regardless of their circumstances. We are deeply grateful to our alums and donors—past and present—whose contributions are improving access to Harvard. Their support has enabled us to expand the Harvard Financial Aid Initiative (HFAI) for low- and middle-income families. Starting with the class of 2026, the cost to attend Harvard College is free for families with annual incomes below $75,000, an increase from the $65,000 annual income threshold in previous years. Making it possible for more people to realize their potential is an act of outstanding generosity.

Though we find ourselves in a better public health situation today, there remains instability in the global economy and markets, which will continue to influence the University's financial resources. Fortunately, prudent planning and sound management have put us in a strong financial position that, along with the generous support of alums and friends, enables us to fulfill our mission. It is impossible to anticipate the challenges the University will face in the future, but I know our community is prepared to embrace opportunities that move Harvard—and the world—forward.

Lawrence S. Bacow
PRESIDENT

October 2022

Financial Overview

From the Vice President for Finance and the Treasurer

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

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

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

As the University's single largest contributor to revenue, 45% of this year's income arose from philanthropy—9% from current use gifts, which have an immediate impact on operations, and 36% from the ongoing support of distributions from the endowment. We want to thank all the alumni and donors who gave to the University—past and present—as Harvard's excellence in teaching, scholarship, research, and generous financial aid is made possible through philanthropy. We are deeply appreciative of this extraordinary support.

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

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

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

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

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

Thomas J. Hollister
VICE PRESIDENT FOR FINANCE

Paul J. Finnegan
TREASURER

October 2022

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

FINANCIAL OVERVIEW

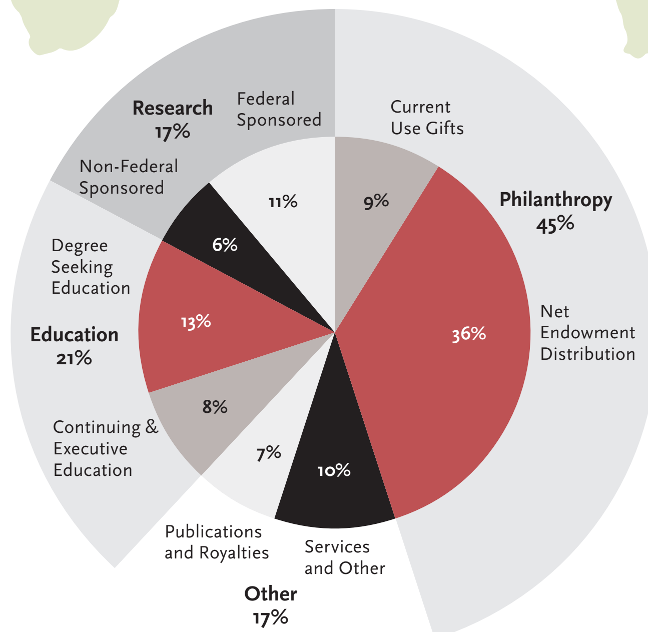
The University ended fiscal year 2022 with an operating surplus of $406 million compared to $283 million in fiscal year 2021. The result marks the first time that revenue and expenses have exceeded pre-pandemic levels. While on-campus activities and programming revitalized revenue with more students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

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

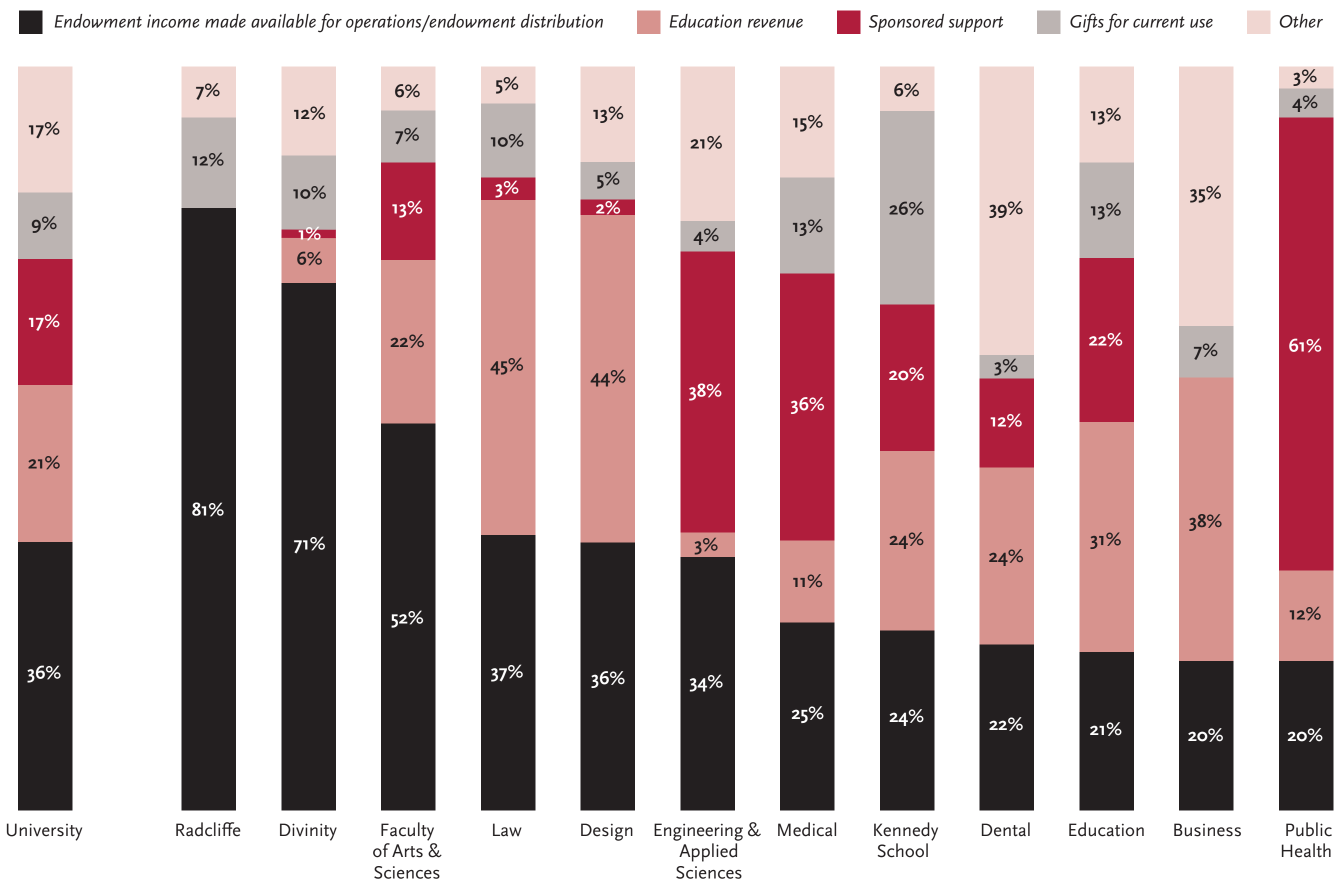
Total **education** revenue comprises 21% of revenue and includes tuition and board and lodging payments from both traditional degree seeking students (undergraduate, graduate, and professional), as well as executive and continuing education learners. In support of **research**, our talented faculty are awarded external grants to further global and research priorities and this sponsored funding makes up 17% of revenue. Revenue generated each year from our education program and research endeavors is not sufficient to fund operations and as such, the University relies on **philanthropy** to fill in the gap. In fiscal year 2022, our current and previous donors supported 45% of revenue through their generosity and belief in the broad impact of education and research at Harvard.

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

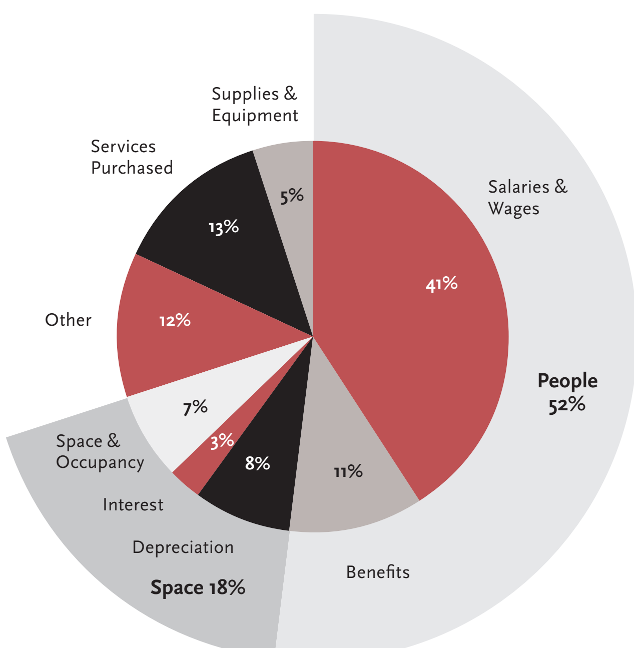
FISCAL YEAR 2022 UNIVERSITY REVENUE SOURCES



FISCAL YEAR 2022 SOURCES OF OPERATING REVENUE



FISCAL YEAR 2022 OPERATING EXPENSES



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

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

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

BALANCE SHEET

Investments and endowment

In fiscal year 2022, the return on investments was -1.8% and its value (after the net impact of distributions from the endowment for operations, and the addition of new gifts to the endowment during the year) decreased from $53.2 billion at the end of fiscal year 2021 to $50.9 billion at the end of fiscal year 2022. More information can be found in the Message from the CEO of Harvard Management Company, found later in this report.

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

Debt

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

Fixed assets

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

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

SUSTAINABILITY GOALS

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

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

Harvard was one of the first organizations to announce in February 2018 a goal to eliminate the use of all fossil fuels to heat, cool, and power buildings and vehicles on our campus by 2050 along with a short-term goal to be fossil fuel-neutral by 2026 as a bridging strategy. The University's climate action plan, including its roadmap to achieve the interim 2026 goal, uniquely addresses both greenhouse gas emissions (GHG) and health impacts from air pollution caused by fossil fuels.

Endowment Net Zero by 2050

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

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

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

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

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

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

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

EDUCATION

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

Total education revenue

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

Undergraduate and graduate programs and financial aid

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

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

Expanding access

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

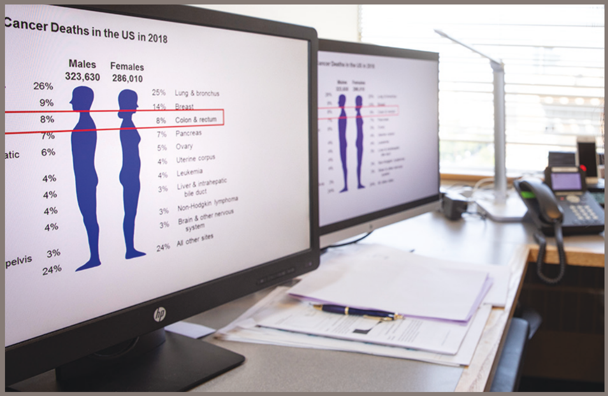
Over the past decade, the University has continuously worked to extend a Harvard education to audiences beyond the traditional on-campus undergraduate and graduate student. In 2021, Harvard Online enrolled over 7.6 million unique learners worldwide in courses created by Harvard faculty, and nine of our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

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

RESEARCH

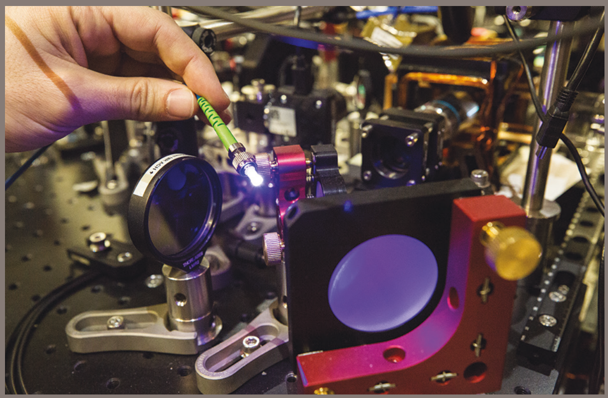
Harvard scholars conduct research in almost every field, seeking to expand human knowledge through analysis, innovation, and insight. In 2022, research was supported by $976 million of sponsored research funds. In addition, the University funded $384 million in University funds, as submitted in the 2021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

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



DEPLOYING ARTIFICIAL INTELLIGENCE AGAINST CANCER

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



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

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

PHILANTHROPY

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

Gifts for current use

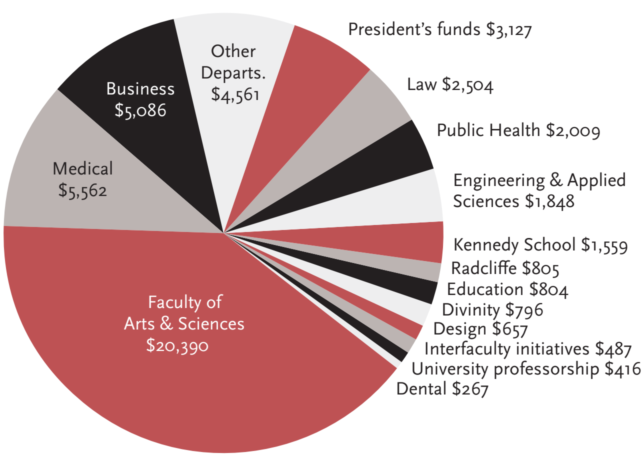
In fiscal year 2022, Harvard received current use gifts from alumni, foundations, and others totaling $505 million, representing approximately 9% of operating revenues. Support for the University comes from donations of all sizes; more than 75% of gifts in fiscal year 2022 averaged $155 per donor.

The Harvard endowment

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

MARKET VALUE OF THE ENDOWMENT AS OF JUNE 30, 2022

In millions of dollars



TOTAL MARKET VALUE $50,878

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

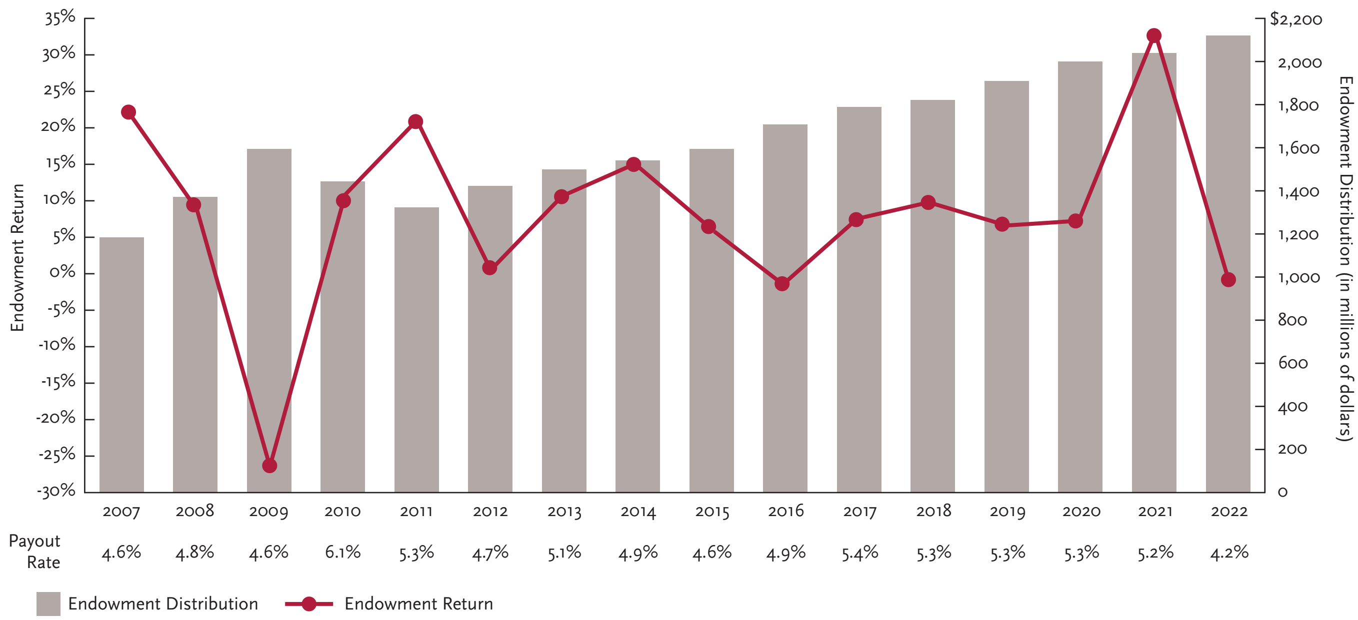
Cash gifts to the endowment were $584 million in fiscal year 2022 compared to $465 million in fiscal year 2021.

Endowment returns made available for operations

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

Harvard is obligated to preserve the purchasing power of the endowment by spending only a small fraction of its value each year. Spending significantly more than that over time, for whatever reason, would privilege the present over the future in a manner inconsistent with an endowment's fundamental purpose of maintaining intergenerational equity. As a general rule, Harvard targets an annual endowment payout rate of 5.0 to 5.5% of market value. The actual payout rate varies each year based on endowment returns. For example, following extraordinary endowment returns in FY21 of 33.6% that served to boost the endowment's market value, the payout rate (i.e., the annual distribution as a percent of market value) fell, despite the fact that the annual distribution increased. This critical source of funding distributed $2.1 billion in the fiscal year ending June 30, 2022—representing 36% of Harvard's total operating revenue—and is the single largest source of revenue supporting the University.

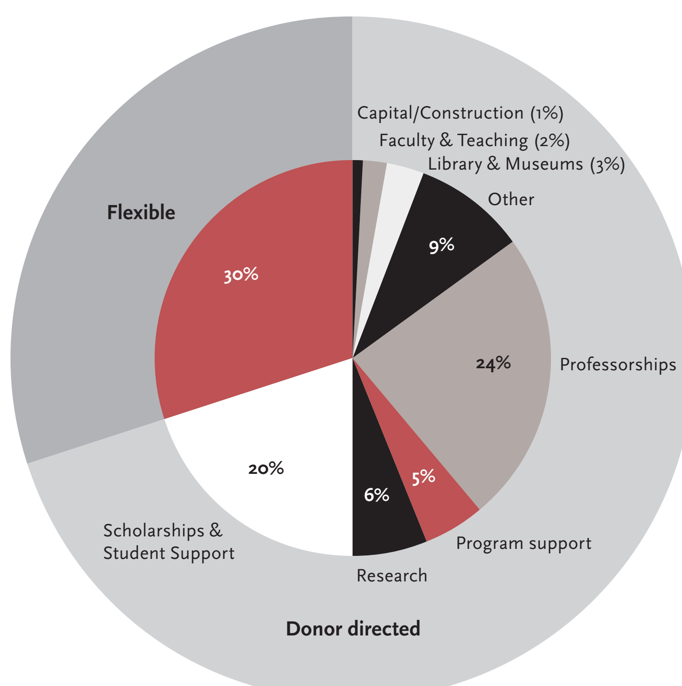
ENDOWMENT RETURNS MADE AVAILABLE FOR OPERATIONS BY YEAR



Endowment payout

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

ENDOWMENT SPENDING FLEXIBILITY



HARVARD MANAGEMENT COMPANY

Message from the CEO

OCTOBER 2022

Dear Members of the Harvard Community,

For the most recent fiscal year, which ended on June 30, 2022, the return on the Harvard endowment was -1.8% and the value stood at $50.9 billion. The endowment also distributed more than $2.1 billion toward the University's operating budget, which continues to represent more than one-third of annual operating revenue.

The disparity between fiscal year 2021 (FY21) and fiscal year 2022 (FY22) returns was stark and reinforces the necessity of focusing on long-term, risk adjusted returns. Among the headwinds we faced this past year, several market factors weighed negatively on performance.

- By far the most significant impact was the poor performance of global equity markets over the course of the year. The S&P 500, Nasdaq Composite, Nasdaq Small Cap, and the ACWI—benchmarks for domestic and global equities—declined by 11%, 23%, 27% and 16%, respectively.

In addition, two other less significant factors weighed upon performance:

- While our benchmark relative performance with respect to public equities, hedge funds, and private equities had been unusually strong over the past four fiscal years, FY22 was not a strong benchmark relative year. Notably, however, HMC's five-year benchmark relative performance—a far more important metric—remains very strong and reinforces the effective turnaround HMC has made.
- A number of institutional investors leaned into the conventional energy sector, through either equities or commodity futures, adding materially to their total return. HMC did not participate in these returns given the University's commitment to tackling the impacts of climate change, supporting sustainable solutions, and achieving our stated net zero goals.

Notably, the highest risk asset classes—i.e., the private portfolios of venture capital, buyout, and real estate—were the strongest performers. In fact, the more private assets an investor had in its portfolio in FY22, the stronger their performance. This is somewhat counterintuitive and may indicate that private managers have not yet marked their portfolios to reflect general market conditions. This phenomenon does make us cautious about forward-looking returns in private portfolios.

For example, the venture capital portion of HMC's private equity portfolio returned high single digits despite the deeply negative performance of relevant public equity indices. On the other hand, some venture managers have meaningful exposure to public companies, which declined with public markets. Accordingly, the performance of venture portfolios during FY22 was largely a function of the proportion of public companies held in those portfolios.

We expect that the end of the current calendar year might present meaningful adjustments to these valuations, as investment managers audit their portfolios. Under existing accounting conventions for venture portfolios, investment managers generally use the most recent round of financing to mark investments. This convention may slow the process of moving existing valuations to fair value. This circumstance is not unique to Harvard—other institutional investors with large private portfolios will almost certainly face the same dynamic.

Given this environment, we are particularly pleased that we were able to sell close to $1 billion of private equity funds in the secondary market during the summer of 2021—a time of significant ebullience—avoiding the discounts these funds would likely face today.

Harvard's Risk Tolerance

Harvard engaged in a years-long analysis of its risk tolerance to balance the desire for continued growth in the endowment with the University's steady reliance on annual distributions. In November 2021, the Corporation approved a proposal of the Harvard Finance Committee and the HMC Board to moderately increase the risk level of the portfolio. Noting how expensive the overall market was at the time, HMC decided to increase the portfolio risk level slowly over a multi-year period to avoid investing heavily at prevailing valuations. This increase will eventually make our risk level more consistent with that of various peers, although it will still be lower than some.

Net Zero Efforts

HMC is proud to be deeply engaged in the issue of sustainability. We are particularly excited about two efforts. First, HMC became the first U.S. endowment to make its own operations carbon neutral for FY22. Working with a third-party vendor, we measured our greenhouse gas emissions, sought opportunities to reduce future emissions, and secured offsets through carbon dioxide removal (CDR). Our goal continues to be mitigation of emissions wherever possible. For the emissions we cannot abate, our guiding principles for CDR are durability, additionality, quality carbon accounting and monitoring, and they may not result in harm to surrounding ecosystems and communities. Second, HMC has been an active investor in technology-driven climate transition investments. A more detailed report on our efforts for these important initiatives will be available in the 2023 Climate Report.

Diversity, Equity & Inclusion

For many years, HMC has worked to address the lack of gender and racial diversity in the financial industry—among our team, our universe of external managers, and portfolio investments.

We last reported on the diversity of our external managers in 2020. Since then, the percentage of diverse, active U.S.-based managers has grown. While we are pleased with our efforts to date, there is certainly more work to be done. HMC continues to actively seek out opportunities to invest with diverse managers and to maintain a staff that reflects those same principles.

In Closing

The disparity in performance between FY21 and FY22 serves to highlight both the value of the endowment to Harvard University during times of economic adversity, as well as the need to focus on long-term returns. We remain confident that the steps we have taken—and those still in process—to construct a portfolio that serves the University's long-term interests will allow Harvard to maintain and increase its critical support of students, faculty, and research for generations to come.

Best regards,

N.P. "Narv" Narvekar
Chief Executive Officer

Report of Independent Auditors

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

Opinion

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, 2022, and the related consolidated statements of changes in net assets with general operating account detail and of changes in net assets of the endowment for the year ended June 30, 2022, and of cash flows for the years ended June 30, 2022 and 2021, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022, the changes in its net assets for the year ended June 30, 2022, and its cash flows for the years ended June 30, 2022 and 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We previously audited the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of changes in net assets with general operating account detail, of changes in net assets of the endowment and of cash flows for the year then ended (the balance sheet and the statements of changes in net assets with general operating account detail and of changes in net assets of the endowment are not presented herein), and in our report dated October 13, 2021, 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, 2021 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the University audit 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, no such opinion is expressed.
- Evaluate 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Harvard University Financial Report Fiscal Year 2022, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 12, 2022

CONSOLIDATED BALANCE SHEETS

with summarized financial information as of June 30, 2021

In thousands of dollars	June 30 2022	2021
ASSETS:		
Cash and cash equivalents	**$ 283,227**	$ 224,042
Receivables, net *(Note 4)*	**339,792**	322,482
Prepayments and deferred charges	**317,448**	315,172
Operating leases—right of use assets *(Note 18)*	**677,147**	689,962
Notes receivable, net *(Note 5)*	**380,812**	377,596
Pledges receivable, net *(Note 6)*	**2,592,434**	2,335,958
Fixed assets, net *(Note 7)*	**8,442,840**	8,463,008
Interests in trusts held by others *(Note 3)*	**432,896**	515,757
Securities pledged to counterparties, at fair value *(Note 3)*	**179,514**	290,388
Investment portfolio, at fair value *(Note 3)*	**59,135,219**	61,141,750
TOTAL ASSETS	**$ 72,781,329**	**$ 74,676,115**
LIABILITIES:		
Accounts payable	**$ 486,707**	$ 488,896
Deferred revenue and other liabilities	**1,679,364**	1,716,026
Operating lease liabilities *(Note 18)*	**689,342**	702,872
Other liabilities associated with the investment portfolio *(Notes 3 and 10)*	**718,031**	756,237
Liabilities due under split interest agreements *(Note 9)*	**886,017**	1,019,357
Bonds and notes payable *(Note 10)*	**6,117,203**	5,503,199
Accrued retirement obligations *(Note 11)*	**928,514**	1,078,647
Government loan advances *(Note 5)*	**29,457**	35,807
TOTAL LIABILITIES	**11,534,635**	**11,301,041**
NET ASSETS	**61,246,694**	**63,375,074**
TOTAL LIABILITIES AND NET ASSETS	**$ 72,781,329**	**$ 74,676,115**

	Without donor restrictions	With donor restrictions	June 30 2022	2021
NET ASSETS:				
General Operating Account (GOA) *(Note 8)*	$ 6,519,858	$ 3,148,616	$ 9,668,474	$ 9,435,991
Endowment *(Note 8)*	9,057,969	41,819,711	50,877,680	53,165,753
Split interest agreements *(Note 9)*		700,540	700,540	773,330
TOTAL NET ASSETS	**$ 15,577,827**	**$ 45,668,867**	**$ 61,246,694**	**$ 63,375,074**

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

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

with summarized financial information for the year ended June 30, 2021

In thousands of dollars	Without Donor Restrictions	With Donor Restrictions	For the year ended June 30 2022	2021
OPERATING REVENUE:				
Net student income *(Notes 2 and 12)*	$ 1,223,363		**$ 1,223,363**	$ 888,284
Sponsored support *(Note 13)*				
Federal government – direct costs	460,707		**460,707**	442,268
Federal government – indirect costs	181,439		**181,439**	182,750
Non-federal sponsors – direct costs	77,632	$ 210,670	**288,302**	259,553
Non-federal sponsors – indirect costs	23,859	21,450	**45,309**	42,116
Total sponsored support	743,637	232,120	**975,757**	**926,687**
Gifts for current use *(Note 14)*	140,625	364,111	**504,736**	540,959
Investment income:				
Endowment returns made available for operations *(Note 8)*	395,456	1,723,399	**2,118,855**	2,039,524
GOA returns made available for operations	153,110		**153,110**	143,788
Other investment income	14,591	7,056	**21,647**	15,917
Total investment income	563,157	1,730,455	**2,293,612**	**2,199,229**
Other revenue *(Note 15)*	838,323		**838,323**	693,915
Net assets released from restriction	2,151,569	(2,151,569)	**0**	0
TOTAL OPERATING REVENUE	**5,660,674**	**175,117**	**5,835,791**	**5,249,074**
OPERATING EXPENSES:				
Salaries and wages	2,206,342		**2,206,342**	2,076,665
Employee benefits *(Note 11)*	583,931		**583,931**	578,126
Services purchased	732,709		**732,709**	644,699
Depreciation *(Note 7)*	428,860		**428,860**	410,229
Space and occupancy	353,786		**353,786**	316,916
Supplies and equipment	271,084		**271,084**	210,697
Interest *(Note 10)*	187,534		**187,534**	183,455
Scholarships and other student awards *(Note 12)*	171,312		**171,312**	160,744
Other expenses *(Note 16)*	494,575		**494,575**	384,825
TOTAL OPERATING EXPENSES	**5,430,133**	**0**	**5,430,133**	**4,966,356**
NET OPERATING SURPLUS	**230,541**	**175,117**	**405,658**	**282,718**
NON-OPERATING ACTIVITIES:				
Income from GOA investments	15,206		**15,206**	2,504
GOA realized and change in unrealized (depreciation)/appreciation, net *(Note 3)*	(259,353)		**(259,353)**	1,529,850
GOA returns made available for operations	(153,110)		**(153,110)**	(143,787)
Change in pledge balances *(Note 6)*		88,930	**88,930**	(12,362)
Change in interests in trusts held by others		(5,803)	**(5,803)**	765
Gifts for facilities and loan funds *(Note 14)*		87,874	**87,874**	135,488
Change in retirement obligations *(Note 11)*	142,745		**142,745**	105,987
Other changes	(11,067)		**(11,067)**	(162,718)
Transfers between GOA and endowment *(Note 8)*	(110,323)	6,513	**(103,810)**	(616)
Transfers between GOA and split interest agreements *(Note 9)*		25,213	**25,213**	21,019
Non-operating net assets released from restrictions	76,828	(76,828)	**0**	0
TOTAL NON-OPERATING ACTIVITIES	**(299,074)**	**125,899**	**(173,175)**	**1,476,130**
GENERAL OPERATING ACCOUNT NET CHANGE DURING THE YEAR	**(68,533)**	**301,016**	**232,483**	**1,758,848**
Endowment net change during the year	(365,086)	(1,922,987)	**(2,288,073)**	11,271,373
Split interest agreements net change during the year *(Note 9)*		(72,790)	**(72,790)**	175,137
NET CHANGE DURING THE YEAR	**(433,619)**	**(1,694,761)**	**(2,128,380)**	**13,205,358**
Net assets, beginning of year	16,011,446	47,363,628	**63,375,074**	**50,169,716**
NET ASSETS, END OF YEAR	**$ 15,577,827**	**$ 45,668,867**	**$ 61,246,694**	**$ 63,375,074**

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS OF THE ENDOWMENT

with summarized financial information for the year ended June 30, 2021

In thousands of dollars	Without Donor Restrictions	With Donor Restrictions	For the year ended June 30 2022	2021
Investment return *(Note 3)*:				
Income from general investments	$ 24,464	$ 108,460	**$ 132,924**	$ 17,923
Realized and change in unrealized (depreciation)/appreciation, net	(196,758)	(878,123)	**(1,074,881)**	12,814,780
Total investment return	(172,294)	(769,663)	**(941,957)**	**12,832,703**
Endowment returns made available for operations	(395,456)	(1,723,399)	**(2,118,855)**	(2,039,524)
Net investment return	(567,750)	(2,493,062)	**(3,060,812)**	**10,793,179**
Gifts for endowment *(Note 14)*	49,443	534,207	**583,650**	465,019
Transfers between endowment and the GOA *(Note 8)*	110,323	(6,513)	**103,810**	616
Capitalization of split interest agreements *(Note 9)*		18,603	**18,603**	16,830
Change in pledge balances *(Note 6)*		168,095	**168,095**	(54,262)
Change in interests in trusts held by others *(Note 8)*		(77,058)	**(77,058)**	87,633
Other changes	(4,059)	(20,302)	**(24,361)**	(37,642)
Net assets released from restrictions	46,957	(46,957)	**0**	0
NET CHANGE DURING THE YEAR	**(365,086)**	**(1,922,987)**	**(2,288,073)**	**11,271,373**
Net assets of the endowment, beginning of year	9,423,055	43,742,698	**53,165,753**	41,894,380
NET ASSETS OF THE ENDOWMENT, END OF YEAR	**$ 9,057,969**	**$ 41,819,711**	**$ 50,877,680**	**$ 53,165,753**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands of dollars	For the year ended June 30 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ (2,128,380)**	$ 13,205,358
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	**428,860**	410,229
Amortization of premium and discount related to bonds and notes payable	**(35,865)**	(38,512)
Realized and change in unrealized depreciation/(appreciation), net	**1,511,867**	(14,741,458)
Change in fair value of interest rate exchange agreements	**(22,704)**	(12,928)
Change in interests in trusts held by others	**82,861**	(88,398)
Change in liabilities due under split interest agreements	**(101,062)**	226,092
Gifts of donated securities	**(81,017)**	(111,634)
Proceeds from the sales of gifts of unrestricted securities	**15,069**	22,290
Gifts for restricted purposes	**(556,994)**	(527,463)
Cost of issuance of debt	**343**	362
Loss on disposal of assets	**23,439**	39,033
Change in accrued retirement obligations	**(150,133)**	(137,604)
Non-cash operating lease costs	**12,815**	64,737
Changes in operating assets and liabilities:		
Receivables, net	**(17,310)**	(59,751)
Prepayments and deferred charges	**(2,276)**	(10,252)
Pledges receivable, net	**(256,476)**	67,217
Accounts payable	**(6,807)**	155,865
Deferred revenue and other liabilities	**(36,662)**	135,848
Operating lease liability	**(13,530)**	(64,727)
NET CASH (USED IN) OPERATING ACTIVITIES	**(1,333,962)**	**(1,465,696)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to students, faculty, and staff	**(64,584)**	(50,412)
Payments received on student, faculty, and staff loans	**48,654**	55,893
Change in other notes receivable	**12,714**	(10,843)
Proceeds from the sales and maturities of investments	**15,503,537**	17,206,874
Purchase of investments	**(14,028,307)**	(15,952,533)
Change associated with repurchase agreements	**(699,810)**	427,855
Additions to fixed assets	**(426,773)**	(472,027)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**345,431**	**1,204,807**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in overdrafts included in accounts payable	**(740)**	6,377
Change in split interest agreements from new contributions, income and payments to annuitants	**(32,278)**	(26,319)
Proceeds from issuance of debt	**746,530**	
Debt repayments	**(97,004)**	(123,330)
Proceeds from the sales of gifts of restricted securities	**65,948**	89,344
Gifts for restricted purposes	**556,994**	527,463
Change in government loan advances	**(6,350)**	(8,941)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**1,233,100**	**464,594**
NET CHANGE IN CASH	**244,569**	**203,705**
Cash, beginning of year	**1,564,303**	**1,360,598**
CASH, END OF YEAR	**$ 1,808,872**	**$ 1,564,303**
Cash and cash equivalents (per *Consolidated Balance Sheets*)	**$ 283,227**	**$ 224,042**
Cash and cash equivalents held in investments *(Note 3)*	**1,525,645**	**1,340,261**
TOTAL CASH AND CASH EQUIVALENTS	**$ 1,808,872**	**$ 1,564,303**
Supplemental disclosure of cash flow information:		
Accounts payable related to fixed asset additions	$ 45,583	$ 40,225
Cash paid for interest	$ 222,932	$ 223,715

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 7,100 undergraduate and 14,100 graduate students in fiscal year 2022, as compared to 5,200 undergraduate and 13,400 graduate students in fiscal year 2021. 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 *Consolidated Balance Sheets* and are not included in the *Consolidated Statements of Changes in Net Assets with General Operating Account Detail.*

The consolidated 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, 2021, 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 consolidated 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 81% of the University's net assets without donor-imposed restrictions as of June 30, 2022. 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 *Consolidated 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, 2022	June 30, 2021
FINANCIAL ASSETS		
Cash and cash equivalents	$ 283,227	$ 224,042
Receivables, net	339,792	322,482
Pledge receivables due in one year	376,097	347,284
Cash equivalents and short-term investments held separately by General Operating Account (GOA)[1]	2,236,157	1,539,736
Endowment returns made available for operations in the following year	2,460,142	2,308,724
TOTAL FINANCIAL ASSETS AVAILABLE WITHIN ONE YEAR	**$ 5,695,415**	**$ 4,742,268**
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	**$ 10,195,415**	**$ 9,242,268**

[1] *The University has a policy of maintaining liquidity outside of the General Investment Accounting (GIA) through a combination of cash equivalents and short-term investments, as referenced on page 7 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 $9.1 billion and $9.4 billion in endowment funds without donor restrictions at June 30, 2022 and 2021, respectively and $4.7 billion and $4.8 billion of General Operating Account investments (GOA) at June 30, 2022 and 2021, 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 $209.1 million and $226.0 million, respectively, at June 30, 2022 and 2021, which are primarily recognized in the subsequent fiscal year.

Total student income of $1.2 billion and $888.3 million was recorded during the years ended June 30, 2022 and 2021, respectively. Student tuition, fees, board and lodging at published rates is summarized as follows for the years ended June 30, 2022 and 2021 (in thousands of dollars):

	2022	2021
Undergraduate program	**$ 390,809**	$ 278,412
Graduate and professional degree programs	**652,005**	581,259
Continuing education and executive programs	**486,682**	395,076
Board and lodging	**199,771**	69,496

Scholarships applied to student charges were $505,904 and $435,959 for the years ended June 20, 2022 and 2021, 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 $975.8 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 $61.1 million and $68.2 million as of June 30, 2022 and 2021, respectively. As of June 30, 2022, the University also had $1.5 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 $838.3 million in fiscal 2022 and $693.9 million in fiscal 2021 includes several revenue streams considered exchange contracts with customers totaling $728.1 million for fiscal year 2022 and $605.3 million in fiscal 2021. These revenues are recognized at the point in time goods or services are provided. Deferred revenues related to other revenue of $104.7 million and $102.1 million were recorded as of June 30, 2022 and 2021, 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 *Consolidated Statements of Changes in Net Assets with General Operating Account Detail*. The University's non-operating activity within the *Consolidated Statements 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, 2021, the University adopted ASU 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 University adopted ASU 2018-15 prospectively. This guidance did not have a significant impact on the University's consolidated financial statements.

Effective July 1, 2021, the University adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This guidance is intended to increase transparency on how contributed nonfinancial assets are to be used and valued. The University adopted ASU 2020-07 prospectively. This guidance did not have a significant impact on the University's consolidated financial statements.

Effective July 1, 2021, the University adopted ASU 2018-14, *Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,* which amends ASC 715, *Compensation—Retirement Benefits*. This accounting pronouncement modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The University adopted ASU 2018-14 on a retrospective basis. The effects of adopting this amendment are addressed in *Note 11*.

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.

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, 2022 and 2021 presented on the *Consolidated Balance Sheets* are summarized in the following table (in thousands of dollars):

	2022	2021
Investment portfolio assets		
Pooled general investment account assets	**$ 55,938,831**	$ 58,566,261
Other investments	**3,196,388**	2,575,489
Investment portfolio, at fair value	**59,135,219**	**61,141,750**
Securities pledged to counterparties, at fair value	**179,514**	290,388
TOTAL INVESTMENT ASSETS	**59,314,733**	**61,432,138**
Pooled general investment account liabilities	**709,422**	724,924
Interest rate exchange agreement	**8,609**	31,313
TOTAL OTHER LIABILITIES ASSOCIATED WITH THE INVESTMENT PORTFOLIO	**718,031**	**756,237**
TOTAL INVESTMENTS, NET	**$ 58,596,702**	**$ 60,675,901**

As of June 30, 2022 and 2021, University net investments were comprised of the following components (in thousands of dollars):

	2022	2021
POOLED GENERAL INVESTMENT ACCOUNT		
Endowment[1]	**$ 48,798,038**	$ 51,279,803
General operating account	**4,658,269**	4,777,430
Split interest agreements	**934,971**	1,021,209
Other internally designated funds	**1,017,645**	1,053,283
TOTAL POOLED GENERAL INVESTMENT ACCOUNT NET ASSETS	**$ 55,408,923**	**$ 58,131,725**
OTHER INVESTMENTS OUTSIDE THE GENERAL INVESTMENT ACCOUNT		
General operating and other investments[2]	**2,536,192**	1,772,698
Split interest agreements	**651,587**	771,478
TOTAL OTHER INVESTMENTS OUTSIDE THE GENERAL INVESTMENT ACCOUNT	**$ 3,187,779**	**$ 2,544,176**
TOTAL INVESTMENTS, NET	**$ 58,596,702**	**$ 60,675,901**

1 *As of June 30, 2022, the total net assets of the endowment of $50,877,680 is comprised of investments in the GIA of $48,798,038, pledges of $1,433,186, interests in trusts held by others of $403,626, and $242,830 of other non-GIA investments and GIA interest and dividends net of all internal and external management fees and expenses. See* Note 8 *for further composition of the net assets of the endowment.*

2 *Consists primarily of repurchase agreements, US government securities, money markets, and fixed income funds, totaling $2,238,277 and $1,563,715 as of June 30, 2022 and 2021, respectively.*

Investment return

A summary of the University's total return on investments for fiscal years 2022 and 2021 is presented below (in thousands of dollars):

	2022	2021
Return on pooled general investment account:		
Realized and change in unrealized (depreciation)/appreciation, net	**$ (1,223,200)**	$ 14,522,886
Interest, dividend, fees, and expenses, net	**150,734**	20,216
Total return on pooled general investment account[1]	**(1,072,466)**	**14,543,102**
Return on other investments:		
Realized and change in unrealized depreciation/(appreciation), net	**(288,667)**	218,572
Interest, dividend, fees, and expenses, net	**36,225**	26,093
Total return on other investments	**$ (252,442)**	**$ 244,665**
Realized and change in unrealized appreciation on interest rate exchange agreement, net	**19,169**	9,272
TOTAL RETURN ON INVESTMENTS[2]	**$ (1,305,739)**	**$ 14,797,039**

1 *Net of all internal and 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, 2022 and summarized as of June 30, 2021 (in thousands of dollars):

	2022					2021
	Level 1	Level 2	Level 3	NAV as Practical Expedient	Total	Total
ASSETS:						
Cash and cash equivalents[1]	$ 1,525,645				**$ 1,525,645**	**$ 1,340,261**
Repurchase agreements		$ 749,873			**749,873**	**50,063**
Domestic equity	1,401,469			$ 1,683,807	**3,085,276**	**4,311,314**
Foreign equity	240,005			1,831,265	**2,071,270**	**2,154,920**
Global equity				1,262,693	**1,262,693**	**2,351,562**
Domestic fixed income	1,711,458	10,018		1,065,873	**2,787,349**	**2,399,417**
Foreign fixed income	17,479				**17,479**	**1,920**
Emerging market equity and debt	15,371			3,337,355	**3,352,726**	**4,562,151**
High yield	2,787		$ 298,319		**301,106**	**275,622**
Hedge funds				16,774,488	**16,774,488**	**18,030,872**
Private equity			1,174,625	20,766,298	**21,940,923**	**20,688,062**
Natural resources	3,506			427,623	**431,129**	**464,278**
Real estate			25,074	3,252,246	**3,277,320**	**2,907,096**
Inflation-indexed bonds	1,097,023				**1,097,023**	**1,156,229**
Due from brokers	14,583	2,963	4,640		**22,186**	**13,911**
Other investments		65,208			**65,208**	**35,532**
INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 6,029,326**	**$ 828,062**	**$ 1,502,658**	**$ 50,401,648**	**$ 58,761,694**	**$ 60,743,210**
Other investment assets not subject to fair value[2]					**553,039**	**688,928**
TOTAL INVESTMENT ASSETS[3]					**$ 59,314,733**	**$ 61,432,138**
Interests in trusts held by others[4]			432,896		**432,896**	**515,757**
NON-INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING			**$ 432,896**		**$ 432,896**	**$ 515,757**
TOTAL ASSETS					**$ 59,747,629**	**$ 61,947,895**
LIABILITIES:						
Due to brokers[5]		$ 77,081			**$ 77,081**	**$ 131,941**
Other liabilities subject to fair value			$ 154,949		**154,949**	**148,728**
INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING		**$ 77,081**	**$ 154,949**		**$ 232,030**	**$ 280,669**
Other investment liabilities not subject to fair value					**486,001**	**475,568**
TOTAL INVESTMENT LIABILITIES[3]					**$ 718,031**	**$ 756,237**
Liabilities due under split interest agreements[4]		$ 886,017			**886,017**	**1,019,357**
NON-INVESTMENT LIABILITIES SUBJECT TO FAIR VALUE LEVELING		**$ 886,017**			**$ 886,017**	**$ 1,019,357**
TOTAL LIABILITIES					**$ 1,604,048**	**$ 1,775,594**

[1] *This amount includes cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents as presented in the* Consolidated Statements of Cash Flows. *This excludes money markets held in "Cash and cash equivalents" on the* Consolidated Balance Sheets *of $65.0 million as of June 30, 2022 and 2021, respectively, which are Level 1 investments.*

[2] *As of June 30, 2022 and 2021 other assets not subject to fair value consist primarily of receivables for transactions that settled subsequent to the balance sheet date of $480,949 and $612,801, respectively.*

[3] *As of June 30, 2022 and 2021, total investment assets, net equal $58,596,702 and $60,675,901, respectively.*

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

[5] *Includes fair value of an interest rate exchange agreement on the University's debt portfolio of $8,609 and $31,313 as of June 30, 2022 and 2021, respectively.*

The following is a rollforward of Level 3 investments for the year ended June 30, 2022 and the summarized June 30, 2021 rollforward of Level 3 investments (in thousands of dollars).

	Beginning balance as of July 1, 2021	Net realized gains/ (losses)	Net change in unrealized appreciation/ (depreciation)[1]	Purchases/ contributions	Sales/ distributions	Transfers into Level 3	Transfers out of Level 3[2]	Ending balance as of June 30, 2022
INVESTMENT ASSETS:								
High yield	$ 273,571	$ 1,009	$ (2,137)	$ 290,539	$ (264,663)			**$ 298,319**
Private equity	1,891,116	17,613	81,577	304,947	(977,166)		$ (143,462)	**1,174,625**
Real estate	23,859		115	1,100				**25,074**
Due from brokers	4,625		15					**4,640**
INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 2,193,171**	**$ 18,622**	**$ 79,570**	**$ 596,586**	**$ (1,241,829)**		**$ (143,462)**	**$ 1,502,658**
Interests in trusts held by others	515,757		(81,754)		(1,107)			**$ 432,896**
NON-INVESTMENT ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 515,757**		**$ (81,754)**		**$ (1,107)**			**$ 432,896**
TOTAL ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 2,708,928**	**$ 18,622**	**$ (2,184)**	**$ 596,586**	**$ (1,242,936)**		**$ (143,462)**	**$ 1,935,554**
INVESTMENT LIABILITIES:								
Other liabilities subject to fair value	$ 148,728		$ (1,098)	$ (34,550)	$ 41,869			**$ 154,949**
TOTAL LIABILITIES SUBJECT TO FAIR VALUE LEVELING	**$ 148,728**	**$ 0**	**$ (1,098)**	**$ (34,550)**	**$ 41,869**			**$ 154,949**
NET ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 2,560,200**	**$ 18,622**	**$ (1,086)**	**$ 631,136**	**$ (1,284,805)**		**$ (143,462)**	**$ 1,780,605**

[1] *Total change in unrealized appreciation/(depreciation) relating to Level 3 investment assets and investment liabilities still held by the University at June 30, 2022 is $95,568 and is reflected in "Realized and change in unrealized (depreciation)/appreciation, net" in the* Consolidated Statements of Changes in Net Assets.

[2] *The transfers out of Level 3 represent interests in private companies that underwent an initial public offering during the fiscal year.*

	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
PRIOR YEAR 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 (depreciation)/appreciation, net" in the* Consolidated Statements of Changes in Net Assets.

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, 2022, 16% 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 *Consolidated Balance Sheets*.

Repurchase agreements

The University *Consolidated 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, 2022 and 2021 the University had gross asset repurchase agreements of $0.8 billion and $0.1 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 *Consolidated 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, 2022 and 2021 (in thousands of dollars):

	As of June 30, 2022			For the year ended June 30, 2022	As of June 30, 2021			For the year ended June 30, 2021
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	$ 5,009,087	$ 79,784	$ 130,849	$ 484,118	$ 5,904,280	$ 88,221	$ 179,670	$ (726,954)
Fixed income instruments[1]	117,000		8,609	19,169	117,000		31,313	9,272
Currency instruments	6,867	1,628	1,626	2,290	7,951	5,966	5,963	3,163
Credit instruments	4,752	4,777		(24)	4,747	4,729		(49)
SUBTOTAL		**$ 86,189**	**$ 141,084**	**$ 505,553**		**$ 98,916**	**$ 216,946**	**$ (714,568)**
TOTAL COUNTERPARTY NETTING[2]		**(68,643)**	**(68,643)**			**(85,005)**	**(85,005)**	
NET AMOUNTS INCLUDED IN THE *CONSOLIDATED BALANCE SHEETS*[3]		**17,546**	**72,441**			**13,911**	**131,941**	
Collateral								
Cash collateral received/posted		115				5,467		
Securities collateral received/posted[5]		9,606	156,121			3,183	250,592	
TOTAL SECURITIES COLLATERAL RECEIVED/POSTED[5]		**9,721**	**156,121**			**8,650**	**250,592**	
NET AMOUNT		**7,825**	**(83,680)**			**5,261**	**(118,651)**	
NET AMOUNT IN ACCORDANCE WITH ASC 210[6]		**$ 7,825**	**$ 0**			**$ 5,261**	**$ 0**	

1 *For the year ended June 30, 2022 and 2021 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* Consolidated Balance Sheets.
4 *Included within "Realized and change in unrealized (depreciation)/appreciation, net" within the* Consolidated 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, 2022 and 2021 are disclosed below (in thousands of dollars):

	As of June 30, 2022			As of June 30, 2021		
	Fair value[1]	Remaining unfunded commitments	Estimated remaining life[2]	Fair value[1]	Remaining unfunded commitments	Estimated remaining life[2]
Private equity funds	$ 17,394,411	$ 8,858,770	4 – 10	$ 16,240,336	$ 7,688,416	4 – 10
Real estate funds	3,052,042	2,068,329	4 – 10	2,881,483	1,856,495	4 – 10
Other externally managed funds[3]	3,259,851	2,902,708	2 – 8	3,654,807	2,921,156	2 – 8
TOTAL	**$ 23,706,304**	**$ 13,829,807**		**$ 22,776,626**	**$ 12,466,067**	

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, 2022			As of June 30, 2021		
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
High yield:	$ 279,893			$ 239,573		
Income approach discount rate		7.7% – 14.9%	9.8%		6.0% – 16.1%	7.7%
Collateral coverage recovery rate		100%	100%		100%	100%
EBITDA multiple		5.3x – 23.0x	8.6x		7.5x – 19.0x	8.8x
Real estate:	17,391			17,391		
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:	121,108			207,033		
Income approach discount rate		8.0% – 14.0%	13.6%		6.0% – 15.0%	14.3%
Cost multiple		3.1x	3.1x		2.5x	2.5x
EBITDA multiple					9.0x	9.0x
Other liabilities subject to fair value	(154,949)			(148,728)		
Market interest rate		2.4% – 3.7%	3.3%		2.5% – 2.8%	2.6%
NET AMOUNT	**$ 263,443**			**$ 315,269**		

[1] *The fair value of investments may be determined using multiple valuation techniques.*
[2] *Included within Level 3 investments is $1,517,162 and $2,244,931 as of June 30, 2022 and 2021, 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 $16.5 million and $13.7 million as of June 30, 2022 and 2021, respectively, were as follows (in thousands of dollars):

	2022	2021
Federal sponsored support	**$ 67,130**	$ 57,321
Executive education	**63,484**	73,400
Publications	**61,545**	55,058
Leases	**32,525**	32,731
Tuition and fees	**19,584**	20,774
Non-federal sponsored support	**13,159**	11,536
Gift receipts	**17,344**	7,985
Other	**65,021**	63,677
TOTAL RECEIVABLES, NET	**$ 339,792**	**$ 322,482**

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):

	2022			2021		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Student loans:						
Government revolving	$ 26,754	$ 643	**$ 26,111**	$ 31,933	$ 832	**$ 31,101**
Institutional	72,489	1,644	**70,845**	77,306	2,237	**75,069**
Total student loans	99,243	2,287	**96,956**	109,239	3,069	**106,170**
Faculty and staff loans	277,234	179	**277,055**	252,090	179	**251,911**
Other loans	49,448	42,647	**6,801**	57,615	38,100	**19,515**
TOTAL	**$ 425,925**	**$ 45,113**	**$ 380,812**	**$ 418,944**	**$ 41,348**	**$ 377,596**

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 $29.5 million and $35.8 million as of June 30, 2022 and 2021, respectively, and are classified as liabilities in the *Consolidated 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 2022, the University made the requested $5.9 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, 2022 and 2021 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 15-year taxable unsecured borrowing rate is used to discount pledges receivable at the end of the fiscal year they are received. Discounts of $246.6 million and $76.3 million for the years ended June 30, 2022 and 2021, respectively, were calculated using rates ranging from 1.0% to 3.9%.

Pledges receivable included in the financial statements as of June 30, 2022 and 2021 are expected to be realized as follows (in thousands of dollars):

	2022	2021
Within one year	**$ 816,775**	$ 660,300
Between one and five years	**1,637,886**	1,673,468
More than five years	**541,641**	257,232
Less: discount and allowance for uncollectible pledges	**(403,868)**	(255,042)
TOTAL PLEDGES RECEIVABLE, NET	**$ 2,592,434**	**$ 2,335,958**

Pledges receivable as of June 30, 2022 and 2021 have been designated for the following purposes (in thousands of dollars):

	2022	2021
General Operating Account balances:		
Gifts for current use	**$ 665,632**	$ 533,952
Non-federal sponsored awards	**186,725**	184,113
Construction and life income	**306,891**	352,802
Total General Operating Account balances	**1,159,248**	**1,070,867**
Endowment	**1,433,186**	1,265,091
TOTAL PLEDGES RECEIVABLE, NET	**$ 2,592,434**	**$ 2,335,958**

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 $110.0 million and $115.1 million as of June 30, 2022 and 2021, 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, 2022 and 2021 are summarized as follows (in thousands of dollars):

	2022	2021	Estimated useful life (in years)
Research facilities	**$ 3,418,161**	$ 3,364,398	*
Classroom and office facilities	**2,543,625**	2,395,225	35
Housing facilities	**2,525,545**	2,408,385	35
Other facilities	**425,737**	460,640	35
Service facilities	**1,114,162**	1,065,126	35
Libraries	**541,080**	534,930	35
Museums and assembly facilities	**990,568**	987,906	35
Athletic facilities	**263,825**	259,254	35
Land	**1,024,986**	1,024,697	N/A
Construction in progress	**357,434**	401,316	N/A
Equipment	**1,468,066**	1,429,723	**
SUBTOTAL AT COST	**14,673,189**	**14,331,600**	
Less: accumulated depreciation	**(6,230,349)**	(5,868,592)	
FIXED ASSETS, NET	**$ 8,442,840**	**$ 8,463,008**	

** Estimated useful lives of components range from 10 to 45 years.*
*** Estimated useful lives of equipment range from 4 to 15 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 $267.4 million and $280.7 million as of June 30, 2022 and 2021, 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 $189.2 million and $200.1 million, which are included in "Deferred revenue and other liabilities" in the *Consolidated Balance Sheets* as of June 30, 2022 and 2021, respectively.

Right-of-use assets from finance leases of $52.3 million and $59.0 million are included in "Fixed assets" in the *Consolidated Balance Sheets* as of June 30, 2022 and 2021, respectively. Lease liabilities from finance leases of $88.2 million and $96.8 million are included in "Deferred revenue and other liabilities" in the *Consolidated Balance Sheets* as of June 30, 2022 and 2021, respectively.

8. ENDOWMENT AND GENERAL OPERATING ACCOUNT NET ASSETS

The University's net assets consisted of the following as of June 30, 2022 and 2021 (in thousands of dollars):

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
NATURE OF SPECIFIC NET ASSETS						
Perpetual endowment funds		$ 9,057,578	**$ 9,057,578**		$ 8,562,120	**$ 8,562,120**
Endowment funds and appreciation subject to distribution policy and appropriation		30,925,321	**30,925,321**		33,434,803	**33,434,803**
Endowment funds without restriction, board designated and subject to distribution policy	$ 9,057,969		**9,057,969**	$ 9,423,055		**9,423,055**
Pledge balances		1,433,186	**1,433,186**		1,265,091	**1,265,091**
Interests in trusts held by others		403,626	**403,626**		480,684	**480,684**
TOTAL ENDOWMENT	**9,057,969**	**41,819,711**	**50,877,680**	**9,423,055**	**43,742,698**	**53,165,753**
Operating	6,519,858		**6,519,858**	6,588,391		**6,588,391**
Unexpended contributions and endowment distributions		3,048,468	**3,048,468**		2,747,969	**2,747,969**
Student loan funds		100,148	**100,148**		99,631	**99,631**
TOTAL GENERAL OPERATING ACCOUNT	**6,519,858**	**3,148,616**	**9,668,474**	**6,588,391**	**2,847,600**	**9,435,991**
Split interest agreements *(Note 9)*		**700,540**	**700,540**		**773,330**	**773,330**
TOTAL NET ASSETS	**$ 15,577,827**	**$ 45,668,867**	**$ 61,246,694**	**$ 16,011,446**	**$ 47,363,628**	**$ 63,375,074**

Endowment

The University's endowment consists of approximately 14,400 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, 2022 and 2021, funds in a deficit position were reported in net assets with donor restrictions and are comprised as follows (in thousands):

	2022	2021
Fair value of underwater endowment funds	**$ 369,782**	$ 23,401
Historic dollar value	**378,931**	24,253
TOTAL DEFICIT OF UNDERWATER ENDOWMENT FUNDS	**$ (9,149)**	**$ (852)**

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 2022, the endowment distribution approved by the Corporation (prior to decapitalizations) was equal to 4.2% 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 $2.1 billion and $2.0 billion in fiscal year 2022 and 2021, respectively.

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 $36.7 million and $32.8 million in fiscal year 2022 and 2021, respectively. These additional decapitalizations, in combination with the endowment distribution, resulted in an aggregate payout rate of 4.2% and 5.2% in fiscal year 2022 and 2021, respectively.

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 *Consolidated 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 3.5% and 1.0% as of June 30, 2022 and 2021, 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 2022 and 2021 were as follows (in thousands of dollars):

	2022	2021
Investment return:		
Investment income	**$ 17,152**	$ 9,961
Realized and change in unrealized (depreciation)/appreciation, net	**(158,186)**	402,937
Total investment return	**(141,034)**	**412,898**
Gifts *(Note 14)*[1]	**12,290**	10,761
Payments to annuitants	**(76,057)**	(71,358)
Transfers to endowment	**(18,603)**	(16,830)
Transfers between SIA and the GOA	**(25,213)**	(21,019)
Change in liabilities and other adjustments	**175,827**	(139,315)
NET CHANGE DURING THE YEAR	**(72,790)**	**175,137**
Total split interest agreement net assets, beginning of year	**773,330**	598,193
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, END OF YEAR	**$ 700,540**	**$ 773,330**

[1] *Shown at net present value. The undiscounted value of these gifts was $26,626 and $35,078 for the years ended June 30, 2022 and 2021, respectively.*

Split interest agreement net assets as of June 30, 2022 and 2021 consisted of the following (in thousands of dollars):

	2022	2021
Split interest agreement investments *(Note 3)*		
Charitable remainder trusts	**$ 1,039,122**	$ 1,170,553
Charitable lead trusts	**101,899**	116,254
Charitable gift annuities	**305,536**	342,917
Pooled income funds	**140,000**	162,963
Total split interest agreement investments[1]	**1,586,557**	**1,792,687**
Liabilities due under split interest agreements:		
Amounts due to beneficiaries	**(819,802)**	(930,260)
Amounts due to other institutions	**(66,215)**	(89,097)
Total liabilities due under split interest agreements	**(886,017)**	**(1,019,357)**
TOTAL SPLIT INTEREST AGREEMENT NET ASSETS, END OF YEAR	**$ 700,540**	**$ 773,330**

[1] *For the year ended June 30, 2022, $934,970 of SIA investments are held in the pooled general investment account and $651,587 of SIA investments are held in the other investments outside the general investment account. 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. Refer to* Note 3.

10. BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2022 and 2021 were as follows (in thousands of dollars):

	Fiscal year of issue	Fiscal year of final maturity[1]	Effective rate[2]	Outstanding principal 2022[3]	Outstanding principal 2021[3]
TAX-EXEMPT BONDS:					
Variable-rate demand bonds:					
Series R – daily	2000-2006	2032	0.1%	$ 114,750	$ 131,200
Series Y – weekly	2000	2036	0.2%	117,905	117,905
Total variable-rate bonds			0.1%	232,655	249,105
Fixed-rate bonds:					
Series 2010A	2010	2022	4.9%		49,590
Series 2016A	2017	2041	4.0%	1,461,370	1,487,675
Series 2020A	2020	2031	4.1%	346,680	346,680
Series 2022B	2022	2033	4.2%	207,830	
Total fixed-rate bonds			4.1%	2,015,880	1,883,945
TOTAL TAX-EXEMPT BONDS			**3.7%**	**2,248,535**	**2,133,050**
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
Series 2022A	2022	2053	3.8%	500,000	
Total fixed-rate bonds			4.1%	3,445,000	2,945,000
TOTAL TAXABLE BONDS			**4.1%**	**3,445,000**	**2,945,000**
Notes payable	Various	Various	Various	83,796	88,355
Unamortized original issuance premium/discount, net				360,763	355,467
Unamortized bond issuance costs				(20,891)	(18,673)
TOTAL BONDS AND NOTES PAYABLE			**3.9%**	**$ 6,117,203**	**$ 5,503,199**

[1] *The weighted average maturity of the portfolio on June 30, 2022 was 18.5 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 one-year average rate. Effective rates are exclusive of the Series Y interest rate exchange agreement, which would increase the overall portfolio rate by 0.06% (3.96% vs. 3.90%).*
**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 $183.0 million and $180.6 million for fiscal 2022 and 2021, respectively. The interest expense in the *Consolidated Statements 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
2023	$ 42,060
2024	92,253
2025	41,441
2026	100,967
2027	102,795
Thereafter	5,397,815
TOTAL PRINCIPAL PAYMENTS	**$ 5,777,331**

In fiscal year 2022, the University issued $500 million of taxable fixed-rate Series 2022A Bonds and $250 million ($207.8 million par) of tax-exempt fixed-rate Series 2022B Bonds, which were designated and independently verified as Green Bonds. Proceeds from the Series 2022A issue will be used to finance future University capital spending. Proceeds from the Series 2022B issue will be used to finance or refinance three sustainable capital projects on campus, in support of the University's sustainability goals.

Offsetting the fiscal year 2022 bond issuances were $97.0 million of principal maturities, along with $36.9 million of amortizing bond premium (net of amortizing fees and issuance discounts), resulting in an overall increase to the University's bonds and notes payable from $5.5 billion to $6.1 billion.

The University is rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Global Ratings. Both the Moody's rating and the Standard & Poor's rating were re-affirmed in February 2022. Additionally, both Moody's and Standard & Poor's rated Harvard's Series 2022A and Series 2022B bond issuances Aaa/AAA in April 2022.

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 2021. There was no outstanding drawn balance on the credit facility at June 30, 2022.

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, 2022.

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, 2022. In August 2021, the University obtained reauthorization of its tax-exempt commercial paper program.

As of June 30, 2022, the University had $232.7 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 2022, 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 ($8.6) million and ($31.3) million as of June 30, 2022 and 2021, respectively, and is recorded in "Other liabilities associated with the investment portfolio" on the University's *Consolidated 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 $191.5 million as of June 30, 2022 and $207.8 million as of June 30, 2021; the assets are included in "Prepayments and deferred charges" and the liabilities are included in "Deferred revenue and other liabilities" on the University's *Consolidated 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 $851.2 million and $1.1 billion as of June 30, 2022 and 2021, respectively. During fiscal years 2022 and 2021, the University made cash contributions to the defined benefit pension plan of $20.0 million and $61.2 million, respectively. The University recorded expenses for its defined contribution plans of $155.1 million for fiscal year 2022 and $153.4 million for fiscal year 2021.

Postretirement health benefits

The University provides postretirement health coverage and life insurance to substantially all of its employees. As of June 30, 2022, the University had internally designated and invested $1.0 billion in the GIA to fund the postretirement health benefit accrued liability of $835.2 million. As of June 30, 2021, the University had internally designated and invested $1.0 billion to fund the postretirement health benefit accrued liability of $1.0 billion.

The following table sets forth the pension and postretirement plans' funded status that is reported in the *Consolidated Balance Sheets* as of June 30, 2022 and 2021 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2022	2021	2022	2021
Change in projected benefit obligation:				
Projected benefit obligation, beginning of year	**$ 1,139,945**	$ 1,220,094	**$ 1,000,395**	$ 955,571
Service cost	**11,208**	12,950	**32,542**	32,961
Interest cost	**34,980**	36,673	**32,643**	32,728
Plan participants' contributions			**9,527**	8,361
Gross benefits paid	**(52,631)**	(103,677)	**(40,664)**	(25,125)
Actuarial gain	**(188,991)**	(26,555)	**(199,211)**	(4,101)
Plan amendments			**(24)**	
Special termination benefits[1]		460		
PROJECTED BENEFIT OBLIGATION, END OF YEAR[2]	**944,511**	**1,139,945**	**835,208**	**1,000,395**
Change in plan assets:				
Fair value of plan assets, beginning of year	**1,061,693**	959,414		
Actual return on plan assets	**(177,857)**	144,732		
Employer contributions	**20,000**	61,224	**31,137**	16,765
Plan participants' contributions			**9,527**	8,361
Gross benefits paid	**(52,631)**	(103,677)	**(40,664)**	(25,126)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	**851,205**	**1,061,693**	**0**	**0**
UNFUNDED STATUS[3]	**$ (93,306)**	**$ (78,252)**	**$ (835,208)**	**$ (1,000,395)**

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 $928,514 as of June 30, 2022 and $1,078,647 as of June 30, 2021 are included in the "Accrued Retirement Obligations" line in the* Consolidated 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 $846.8 million at June 30, 2022 and $1.0 billion at June 30, 2021. 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, 2022.

Net periodic benefit cost

Components of net periodic benefit cost and other amounts recognized in the *Consolidated Statements of Changes in Net Assets with General Operating Account Detail* are summarized as follows for the years ended June 30, 2022 and 2021 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2022	2021	2022	2021
Components of net periodic benefit cost:				
Operating				
Service cost	**$ 11,208**	$ 12,950	**$ 32,542**	$ 32,961
Special termination benefits		460		
Total operating activity	**11,208**	13,410	**32,542**	32,961
Non-operating				
Interest cost	**34,980**	36,673	**32,643**	32,728
Expected return on plan assets	**(40,026)**	(47,300)		
Amortization of:				
Actuarial loss/(gain)	**7,242**	16,230	**(4,650)**	(5,116)
Prior service cost/(credit)	**287**	288	**(7,929)**	(7,929)
Total non-operating activity[1]	**2,483**	5,891	**20,064**	19,683
Total net periodic benefit cost	**13,691**	**19,301**	**52,606**	**52,644**
Other amounts recognized in non-operating activity in unrestricted net assets:				
Current year net actuarial loss/(gain)	**28,893**	(123,987)	**(199,211)**	(4,101)
Plan amendments			**(24)**	
Amortization of:				
Prior service (cost)/credit	**(287)**	(288)	**7,929**	7,929
Actuarial (loss)/gain	**(7,242)**	(16,230)	**4,650**	5,116
Total other amounts recognized in non-operating activity[1]	**21,364**	**(140,505)**	**(186,656)**	**8,944**
TOTAL RECOGNIZED IN *CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS WITH GENERAL OPERATING ACCOUNT DETAIL*	**$ 35,055**	**$ (121,204)**	**$ (134,050)**	**$ 61,588**

[1] *These amounts totaling ($142,745) in fiscal year 2022 and ($105,987) in fiscal year 2021 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* Consolidated 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, 2022 and 2021 (in thousands of dollars):

	Pension benefits		Postretirement health benefits	
	2022	2021	2022	2021
Net actuarial loss/(gain)	**$ 62,248**	$ 40,596	**$ (362,492)**	$ (167,932)
Prior service cost/(credit)	**320**	607	**(33,765)**	(41,670)
CUMULATIVE AMOUNTS RECOGNIZED IN UNRESTRICTED NET ASSETS	**$ 62,568**	**$ 41,203**	**$ (396,257)**	**$ (209,602)**

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 2022 and 2021:

	Pension benefits		Postretirement health benefits	
	2022	2021	2022	2021
Weighted-average assumptions used to determine benefit obligation as of June 30:				
Discount rate	**5.05%**	3.15%	**4.90%**	3.20%
Compensation increase trend:				
Average rate	N/A	3.50%	N/A	3.50%
Initial rate	**5.00%**	N/A	**5.00%**	N/A
Ultimate rate	**3.50%**	N/A	**3.50%**	N/A
Year of ultimate	**2025**	N/A	**2025**	N/A
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	N/A	0.25%	N/A	N/A
Initial rate	**1.50%**	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
Health care cost trend rate:				
Current rate	N/A	N/A	**7.00%**	6.50%
Ultimate rate	N/A	N/A	**5.00%**	4.75%
Year of ultimate	N/A	N/A	**2029**	2025
Weighted-average assumptions used to determine net periodic benefit (income)/cost:				
Discount rate	**3.15%**	3.15%	**3.20%**	3.35%
Expected long-term rate of return on plan assets	**4.50%**	5.50%	N/A	N/A
Compensation increase trend:				
Average rate	**3.50%**	3.50%	**3.50%**	3.50%
Initial rate	**0.00%**	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
Pension increases for in-payment benefits increase trend:				
Average rate	**0.25%**	0.00%	N/A	N/A
Health care cost trend rate:				
Initial 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

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, 2022 and 2021, along with target allocations for June 30, 2023, is as follows:

	2023 Target	June 30, 2022	June 30, 2021
Asset allocation by category for pension plan:			
Fixed income securities	75-85%	79.7%	77.0%
Equity securities	15-25	19.6	19.8
Cash	1-5	0.7	3.2
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 2022, 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, 2022 and 2021 (in thousands of dollars):

	2022					2021
	Level 1	Level 2	Level 3	NAV as practical expedient	Total	Total
PLAN ASSETS:						
Cash and short-term investments	$ 17,942				**$ 17,942**	$ 57,999
Domestic equity	87,025				**87,025**	104,391
Foreign equity	26,035			$ 36,921	**62,956**	75,522
Domestic fixed income				633,453	**633,453**	746,979
Foreign fixed income					**0**	8,479
Emerging market equity and debt	12,880				**12,880**	22,895
Hedge funds				265	**265**	321
Private equity				1,368	**1,368**	1,799
High yield				35,313	**35,313**	41,215
PLAN ASSETS SUBJECT TO FAIR VALUE LEVELING	**$ 143,882**	**$ 0**	**$ 0**	**$ 707,320**	**$ 851,202**	**$ 1,059,600**
Other assets not subject to fair value					**3**	2,126
TOTAL PLAN ASSETS					**$ 851,205**	**$ 1,061,726**
PLAN LIABILITIES:						
Due to brokers					**$ 0**	$ (33)
PLAN LIABILITIES SUBJECT TO FAIR VALUE LEVELING	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ (33)**
TOTAL PLAN LIABILITIES					**$ 0**	**$ (33)**

Expected future benefit payments

Employer contributions of $10.0 million are expected for fiscal year 2023 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
2023	$ 65,446	$ 26,643
2024	65,425	28,974
2025	67,316	31,068
2026	68,908	33,578
2027	70,132	36,165
Thereafter	361,470	220,713

12. STUDENT FINANCIAL AID

Financial aid granted to students in fiscal 2022 and 2021 is summarized as follows (in thousands of dollars):

	2022	2021
Scholarships and other student awards:		
Scholarships applied to student income[1]	**$ 505,904**	$ 435,959
Scholarships and other student awards paid directly to students	**171,312**	160,744
Total scholarships and other student awards	**677,216**	**596,703**
Student employment	**93,581**	84,273
Student loans	**14,124**	13,064
Agency financial aid[2]	**21,505**	21,279
TOTAL STUDENT FINANCIAL AID	**$ 806,426**	**$ 715,319**

[1] *Includes $224,863 and $164,232 in fiscal 2022 and 2021, 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 $642.1 million and $625.0 million in fiscal year 2022 and 2021, 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, 2022 are summarized as follows (in thousands of dollars):

	2022		
	Gifts received	Donor redesignations/ other changes	Total
Current use	$ 514,361	$ (9,625)	**$ 504,736**
Non-federal sponsored grants	235,481	(3,361)	**232,120**
Endowment funds	579,987	3,663	**583,650**
Split interest agreements[1]	12,290		**12,290**
Loan funds and facilities	81,943	5,931	**87,874**
TOTAL GIFTS	**$ 1,424,062**	**$ (3,392)**	**$ 1,420,670**

[1] *Shown at net present value. The undiscounted value of these gifts was $26,626 for the year ended June 30, 2022.*

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.*

15. OTHER REVENUE

The major components of other revenue for the years ended June 30, 2022 and 2021 were as follows (in thousands of dollars):

	2022	2021
Publications and royalties from copyrights	**$ 277,104**	$ 253,113
Royalties from the commercialization of intellectual property[1]	**152,078**	107,164
Services income	**135,240**	96,443
Rental and parking[2]	**116,070**	87,646
Health and clinic fees	**70,214**	61,461
Sales income	**31,423**	23,703
Interest income	**8,373**	7,079
Other student income	**4,326**	3,582
Other	**43,495**	53,724
TOTAL OTHER REVENUE	**$ 838,323**	**$ 693,915**

[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, 2022 and 2021 were as follows (in thousands of dollars):

	2022	2021
Subcontract expenses under sponsored projects	**$ 179,212**	$ 161,910
Advertising	**53,007**	40,444
Publishing	**45,097**	39,316
Travel	**43,737**	1,965
Taxes and fees	**38,706**	35,294
Insurance	**25,669**	15,749
Fixed asset impairments	**21,385**	20,804
Postage	**14,907**	13,265
Telephone	**11,153**	10,968
Other	**61,702**	45,110
TOTAL OTHER EXPENSES	**$ 494,575**	**$ 384,825**

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, 2022 and 2021 were as follows (in thousands of dollars):

2022	Instruction and academic support	Research[1]	Student services and support	Institutional support and auxiliary	Total
Salaries and wages	$ 1,149,598	$ 310,492	$ 144,458	$ 601,794	**$ 2,206,342**
Employee benefits	286,322	74,786	49,844	172,979	**583,931**
Services purchased	374,555	95,246	60,739	202,169	**732,709**
Depreciation	47,664	155,568	16,520	209,108	**428,860**
Space and occupancy	106,798	62,355	31,766	152,867	**353,786**
Supplies and equipment	90,926	55,364	41,906	82,888	**271,084**
Interest	18,549	43,775	13,071	112,139	**187,534**
Scholarships and other student awards			171,312		**171,312**
Other expense and overhead allocations	1,866	424,292	28,407	40,010	**494,575**
TOTAL EXPENSES	**$ 2,076,278**	**$ 1,221,878**	**$ 558,023**	**$ 1,573,954**	**$ 5,430,133**

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

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.*

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 *Consolidated 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 *Consolidated 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 $101.2 million and $95.4 million in fiscal year 2022 and 2021, 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
2023	$ 84,515	$ 13,640
2024	76,230	11,255
2025	69,951	11,645
2026	65,157	21,734
2027	60,518	11,696
Thereafter	484,169	95,232
TOTAL LEASE PAYMENTS	840,540	165,202
Less: Imputed Interest	(151,198)	(77,004)
PRESENT VALUE OF LEASE LIABILITIES	**$ 689,342**	**$ 88,198**

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

	June 30, 2022
Weighted Average Remaining Lease Term	
Operating Leases	15.2 YEARS
Finance Leases	14.4 YEARS
Weighted Average Discount Rate	
Operating Leases	2.4%
Finance Leases	2.4%

As of June 30, 2022, the University has $180.6 million of future payments under a lease for research facilities and office space that have not yet commenced. This lease will commence during fiscal year 2023 with a lease term of 15 years.

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 *Consolidated 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, 2022 totaled approximately $267.2 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 12, 2022, the date the consolidated financial statements were issued. The University has concluded that no material events have occurred that are not accounted for in the accompanying consolidated financial statements or disclosed in the accompanying notes.