“Reasonably Good” Fiscal Results

Further progress toward moderating the rate of expense growth, and stable revenue growth, yielded “reasonably good results” for Harvard during the fiscal year that ended June 30, 2004. That was how Ann E. Berman, vice president for finance—the University’s chief financial officer—characterized the accounts reported on December 6 in the *Financial Report to the Board of Overseers of Harvard College* (available at http://vpf-web.harvard.edu/annualfinancial).

Expenses rose $128 million, or 5.3 percent, to $2.561 billion—down from 9.6 percent and 7.6 percent, respectively, in fiscal years 2002 and 2003. The trend was “as expected,” Berman said, reflecting concerted efforts to rein in costs in the central administration and some of the schools, and the braking effect of much more modest distributions from the endowment (the principal source of operating funds University-wide). Revenues increased $125 million, or 5.1 percent, to $2.598 billion, down fractionally from the 5.3 percent growth of the prior year. Berman cited federally sponsored research funding “very much stronger than I expected”—up 14 percent, driven by awards from the National Institutes of Health, despite that agency’s own level appropriation (an encouraging affirmation of Harvard’s research prowess).

Combining the revenue and expense streams, Harvard recorded an operating surplus of $37 million, a touch less than in fiscal year 2003. That outcome, Berman said, is the result of “lots of efforts all over the University to control costs.” Within the central administration, vice presidents’ budgets were held level, forcing what she called “some structural changes, some cutting out the fluff.” Those steps ranged from automating functions (electronic billing for students, elimination of paper pay stubs for faculty and staff) to consolidation (moving to common Web designs and personnel across units), and resulted in the elimination of 70 positions. Academic units that have taken steps to reduce costs or eliminate deficits include the education, government, and medical schools and the

HARVARD BY THE NUMBERS

Endowment income distributed for operations makes up the largest share of Harvard’s revenue: 31 percent in the fiscal year ended June 30, 2004. But the individual schools’ finances vary depending on the size of their endowments (the Faculty of Arts and Sciences, FAS, has about half the total); reliance on tuition (an especially major factor for the law, business, and design schools); and sponsored-research operations (particularly in biomedical and related sciences). Data shown here, which exclude current-use gifts and other sources of revenue, come from the 2004 *Financial Report.*

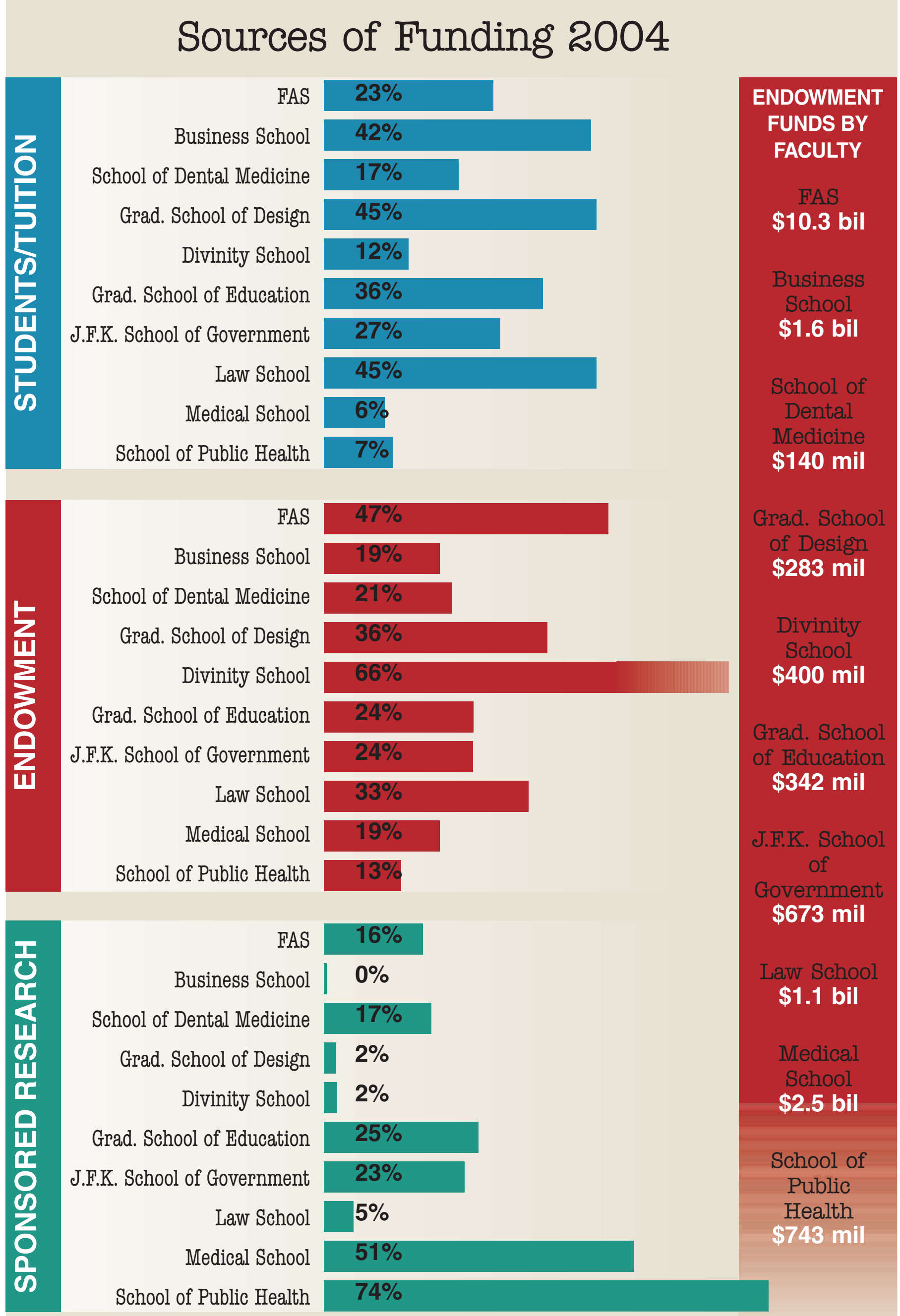

Chart by Stephen Anderson

Radcliffe Institute. In addition, the *Financial Report* indicates that the design school has ended losses associated, Berman said, with two research centers.

The principal factors driving expenses higher remain employee benefits and the space and occupancy costs for Harvard's ever-expanding facilities. Compensation —salaries, wages, and benefits—rose 6.3 percent, to $1.34 billion. Benefit costs surged nearly 11 percent, and "the pressure's still there," Berman said.

Space and occupancy expenses rose 9 percent, to $263 million, reflecting the tenanting of new buildings, higher security costs, and rising utility bills. Chiefly to finance its continuing construction, Harvard increased its aggregate borrowing by nearly $400 million for the second consecutive year; bonds and notes outstanding as of June 30 totaled $2.6 billion. Berman said the University's debt may well increase at a similar pace in the years ahead, but noted, "We're watching it very carefully as we contemplate Allston," where campus development will require huge capital investments.

Berman cited the 21.1 percent investment return on endowment assets, now totaling $22.6 billion, as perhaps the most notable event of the year for Harvard's financial future (see "Endowment Gains: Last Hurrah?" November-December 2004, page 56). Endowment income distributed for operations totals 31 percent of annual revenues (sponsored research contributes 23 percent and tuition and student fees 21 percent; for a summary by school, see "Harvard by the Numbers," page 71).

Endowment income distributed in fiscal year 2004 reached $808 million, up 4.8 percent from 2003. The Corporation's targeted 2 percent increase in the distribution was inflated by new sources of endowment income—notably, the inclusion of the Rowland Institute's operations and assets for a first full year (see "A Scientific Windfall for the University?" January-February 2002, page 64). These sums exclude the special distribution from endowment appreciation for Allston-related expenses, a figure no longer separately disclosed in the *Financial Report*; director of finance and accounting Victoria M. Johnson indicated that it totaled $89.7 million in 2004. For the current fiscal year, the Corporation has authorized a 4 percent increase in the endowment income distributed for operations. It was scheduled to determine the distribution for fiscal 2006, which begins on July 1, as this magazine was going to press.

Peering ahead, Berman outlined several financial concerns: stagnant federal research support, given the nation's budget deficit; doubt about the ability to keep raising tuition; soaring costs for scientific equipment and laboratories and for employee benefits. Pressure may also emerge on the compensation line: "We benefited…from a weak labor market" in Massachusetts during the past few years, she said. And despite the endowment's recent stellar performance, she stressed that Harvard needs "to be able to say to our alumni and prospective donors that we are paying attention" to efficient operations and focusing on activities essential to the University's mission, now and as a capital campaign approaches.

Doing so in the current fiscal year, she forecast, would yield financial results "probably similar" to those reported in 2004. Then, Berman said, "The next year is all about Allston and what it means" for the University's ambitions, and their financial underpinnings—in the rest of the decade and beyond.

Louis Menand and Marjorie Garber

Yearning for "Big Humanities"

Many of Harvard's leading humanities scholars convened on October 22 to celebrate the twentieth anniversary of the Humanities Center—and to plot their course through a changing academic landscape—by joining across disciplines for "20/20: Looking Back, Looking Forward," a conference aiming to reassert their disciplines' value at the University. The event included three panels of senior faculty members and centered on a lunchtime discussion led by center director and Kenan professor of English and American literature Marjorie Garber and Bass professor of English and American literature Louis Menand. Facing the portraits of academic giants that line the Barker Center's wood-paneled Thompson Room, Garber and Menand asked: "Is it time to rebuild the humanities?"

Menand, who called himself the "negatively charged particle" in the exchange, indicated some pitfalls in the path the hu-

Photograph by Stu Rosner