# The Howard University

**Consolidated Financial Statements and Reports and Schedules Required by *Government Auditing Standards* and the Uniform Guidance**

**For the year ended June 30, 2016**

**EIN 53-0204707**

HOWARD
UNIVERSITY

**Page(s)**

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## Independent Auditor's Report

Board of Trustees
The Howard University
Washington, DC

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Howard University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2016, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Howard University as of June 30, 2016, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations ("CRF") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by** *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 23, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Report on Summarized Comparative Information*

We have previously audited The Howard University's 2015 and 2014 consolidated financial statements, and we expressed unmodified opinions on those consolidated financial statements in our reports dated December 10, 2015 and December 23, 2014, respectively. In our opinion, the summarized comparative information presented herein as of and for the years ended June 30, 2015 and 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

BDO USA, LLP

Washington, D.C.

November 23, 2016, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is March 30, 2017

HOWARD
UNIVERSITY

**Office of the Senior Vice President**
**Chief Financial Officer and Treasurer**

**Report of Treasurer on Financial Statements**

The administration of The Howard University is responsible for the preparation, accuracy, integrity and objectivity of the financial statements contained herein. Such financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include certain amounts that represent our best estimates and judgments. Actual amounts could differ from those estimates.

These financial statements have been prepared under my supervision. Based on my knowledge, these financial statements present fairly, in all material respects, the financial position, changes in net assets and cash flows of The Howard University for the periods presented herein.

Furthermore, I hereby certify that The Howard University, as Borrower under separate agreements with certain banks and lending institutions, is in compliance with the respective financial covenants as of June 30, 2016, as described in Note 18 of the accompanying financial statements.

Michael J. Masch

Michael J. Masch
Senior Vice President, Chief Financial Officer
and Treasurer

John D. Gordon, Jr.

John D. Gordon, Jr. MS, CPA, CGMA
Controller and Chief Accounting Officer

November 23, 2016

| **Statements of Financial Position**<br>**As of June 30, 2016, 2015 and 2014**<br><br>*(in thousands)* | | **2016** | | **2015** | | **2014** |
|---|---|---|---|---|---|---|
| **Current assets:** | | | | | | |
| Cash and cash equivalents | $ | 45,294 | $ | 22,522 | $ | 14,820 |
| Operating investments | | 34,433 | | 36,333 | | 40,095 |
| Deposits with trustees | | 348 | | 137 | | 971 |
| Receivables, net | | 145,783 | | 63,532 | | 72,907 |
| Operating leases | | 1,895 | | 1,746 | | 900 |
| Inventories, prepaids and other current assets | | 11,904 | | 10,701 | | 11,748 |
| Restricted Investments | | 37,820 | | 45,911 | | 42,118 |
| **Total current assets** | | **277,477** | | **180,882** | | **183,559** |
| **Long term assets:** | | | | | | |
| Deposits with trustees | | 14,303 | | 14,120 | | 12,882 |
| Receivables, net | | 76,657 | | 53,729 | | 53,826 |
| Operating leases | | 12,596 | | 14,491 | | 16,237 |
| Inventories, prepaids and other noncurrent assets | | 27,654 | | 16,398 | | 17,457 |
| Unexpended bond proceeds | | 5,027 | | 10,440 | | 46,325 |
| Restricted investments | | 3,152 | | 2,190 | | 2,122 |
| Endowment investments | | 577,132 | | 590,659 | | 591,902 |
| Long-lived assets | | 576,453 | | 619,743 | | 625,602 |
| **Total long term assets** | | **1,292,974** | | **1,321,770** | | **1,366,353** |
| **Total assets** | **$** | **1,570,451** | **$** | **1,502,652** | **$** | **1,549,912** |
| **Current liabilities:** | | | | | | |
| Accounts payable and accrued expenses | $ | 99,482 | $ | 143,350 | $ | 122,955 |
| Deferred revenue | | 107,391 | | 14,081 | | 10,000 |
| Deferred rent payable | | 1,895 | $ | 1,746 | | 900 |
| Other liabilities | | 8,522 | | 11,309 | | 11,010 |
| Accrued post retirement benefits | | 4,505 | | 4,293 | | 5,471 |
| Reserves for self-insured liabilities | | 6,918 | | 11,543 | | 6,440 |
| Notes payable | | - | | 98,971 | | 23,948 |
| Financing lease obligations | | 6,570 | | 8,754 | | 9,571 |
| Bonds payable | | 1,602 | | 1,838 | | 406 |
| **Total current liabilities** | | **236,885** | | **295,885** | | **190,701** |
| **Long term liabilities:** | | | | | | |
| Deferred revenue | | 1,175 | | - | | - |
| Deferred rent payable | | 12,596 | | 14,491 | | 16,237 |
| Other liabilities | | 15,267 | | 18,216 | | 19,165 |
| Accrued post retirement benefits | | 63,103 | | 59,145 | | 65,831 |
| Underfunded defined benefit pension plan | | 166,678 | | 130,128 | | 106,629 |
| Reserves for self-insured liabilities | | 80,293 | | 83,005 | | 80,191 |
| Notes payable | | - | | - | | 46,499 |
| Financing lease obligations | | 18,475 | | 24,734 | | 34,554 |
| Bonds payable | | 449,474 | | 291,016 | | 292,788 |
| Refundable advances under Federal Student Loan Program | | 6,390 | | 6,827 | | 6,369 |
| **Total long term liabilities** | | **813,451** | | **627,562** | | **668,263** |
| **Total liabilities** | | **1,050,336** | | **923,447** | | **858,964** |
| **Net Assets:** | | | | | | |
| Unrestricted | | 155,513 | | 200,180 | | 308,222 |
| Temporarily restricted | | 236,353 | | 250,919 | | 256,783 |
| Permanently restricted | | 128,249 | | 128,106 | | 125,943 |
| **Total net assets** | | **520,115** | | **579,205** | | **690,948** |
| **Total liabilities and net assets** | **$** | **1,570,451** | **$** | **1,502,652** | **$** | **1,549,912** |

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

| **Statements of Activities**<br>**For The Fiscal Year Ended June 30, 2016 (with summarized comparative information for the fiscal years ended June 30, 2015 and 2014)**<br>*(in thousands)* | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **2016** | **2015** | **2014** |
|---|---|---|---|---|---|---|
| **Operating** | | | | | | |
| ***Revenues and reclassifications:*** | | | | | | |
| Academic services: | | | | | | |
| Tuition and fees, net | $ 155,453 | $ - | $ - | $ 155,453 | $ 154,068 | $ 164,722 |
| Grants and contracts | 56,379 | - | - | 56,379 | 64,450 | 57,048 |
| Auxiliary services | 52,481 | - | - | 52,481 | 53,998 | 64,937 |
| Clinical services: | | | | | | |
| Patient service - Hospital | 228,075 | - | - | 228,075 | 230,915 | 209,752 |
| Patient service - Faculty medical practice | 27,012 | - | - | 27,012 | 25,401 | 33,802 |
| Patient service - Dental clinic | 1,594 | - | - | 1,594 | 2,450 | 2,202 |
| Public support: | | | | | | |
| Federal appropriation | 218,416 | 3,405 | - | 221,821 | 212,035 | 222,751 |
| Contributions | 4,156 | (433) | 6,832 | 10,555 | 12,442 | 12,298 |
| Endowment transfer | 6,581 | 7,217 | 476 | 14,274 | 13,718 | 13,096 |
| Operating investment income (loss) | (1,015) | - | - | (1,015) | 966 | 7,053 |
| Other income | 17,529 | 1,827 | (2,909) | 16,447 | 16,505 | 16,459 |
| **Total revenues** | **766,661** | **12,016** | **4,399** | **783,076** | **786,948** | **804,120** |
| Net assets released from restrictions | 14,296 | (14,296) | - | - | - | - |
| **Total revenues and reclassifications** | **780,957** | **(2,280)** | **4,399** | **783,076** | **786,948** | **804,120** |
| ***Expenses:*** | | | | | | |
| Program services: | | | | | | |
| Instruction | 193,405 | - | - | 193,405 | 207,796 | 215,022 |
| Research | 40,136 | - | - | 40,136 | 42,375 | 35,609 |
| Public service | 11,221 | - | - | 11,221 | 12,500 | 10,492 |
| Academic support | 38,700 | - | - | 38,700 | 41,768 | 47,173 |
| Student services | 30,605 | - | - | 30,605 | 29,862 | 27,754 |
| Patient care | 245,368 | - | - | 245,368 | 276,988 | 299,372 |
| **Total program services** | **559,435** | **-** | **-** | **559,435** | **611,289** | **635,422** |
| Supporting services: | | | | | | |
| Institutional support | 144,968 | - | - | 144,968 | 163,103 | 144,070 |
| Auxiliary enterprises | 67,053 | - | - | 67,053 | 67,756 | 69,244 |
| **Total supporting services** | **212,021** | **-** | **-** | **212,021** | **230,859** | **213,314** |
| **Total operating expenses** | **771,456** | **-** | **-** | **771,456** | **842,148** | **848,736** |
| **Operating revenues over (under) operating expenses** | **9,501** | **(2,280)** | **4,399** | **11,620** | **(55,200)** | **(44,616)** |
| **Non-operating** | | | | | | |
| Investment income/(loss) in excess of amount designated for operations | (6,983) | (4,085) | (4,103) | (15,171) | 5,134 | 85,027 |
| Endowment transfer | (5,920) | (8,201) | (153) | (14,274) | (13,718) | (13,096) |
| Restructuring costs | (44) | - | - | (44) | (10,502) | (3,433) |
| Change in funded status of defined benefit pension plan | (40,712) | - | - | (40,712) | (31,973) | 19,283 |
| Change in obligation for post-retirement benefit plan | (19,244) | - | - | (19,244) | (5,530) | (15,003) |
| Change in funded status of supplemental retirement plan | 142 | - | - | 142 | - | - |
| Gain on property/land sale | 18,581 | - | - | 18,581 | - | 1,675 |
| Other items, net | 12 | - | - | 12 | 46 | - |
| **(Decrease) increase in non-operating activities** | **(54,168)** | **(12,286)** | **(4,256)** | **(70,710)** | **(56,543)** | **74,453** |
| **Change in net assets** | **(44,667)** | **(14,566)** | **143** | **(59,090)** | **(111,743)** | **29,837** |
| **Net assets, beginning of year** | **200,180** | **250,919** | **128,106** | **579,205** | **690,948** | **661,111** |
| **Net assets, end of year** | **$ 155,513** | **$ 236,353** | **$ 128,249** | **$ 520,115** | **$ 579,205** | **$ 690,948** |

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

| **Consolidated Statements of Cash Flows**<br>**For Fiscal Years Ended June 30, 2016, 2015 and 2014**<br>*(in thousands)* | **2016** | **2015** | **2014** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Change in net assets | $ (59,090) | $ (111,743) | $ 29,837 |
| Adjustments to reconcile change in net assets to net cash and cash equivalents (used in)/provided by operating activities: | | | |
| Depreciation | 44,883 | 51,596 | 55,900 |
| Bond discount amortization | 221 | 235 | 206 |
| Net realized gain on sale of investment | (15,955) | (29,417) | (39,553) |
| Unrealized loss (gain) on investments | 36,720 | 32,910 | (37,855) |
| Increase (decrease) in pension/post retirement liability | 40,720 | 15,635 | (17,376) |
| (Gain) loss on sale/disposal of long-lived assets | (18,581) | 133 | - |
| Change in receivables (excluding notes) | (98,208) | 4,254 | 3,490 |
| Change in inventory, prepaid expenses and other assets | (12,459) | 2,106 | 769 |
| Change in deposits with trustees | (394) | (404) | 3,772 |
| Change in accounts payable and accrued expenses and other | (43,837) | 20,395 | 14,878 |
| Change in allowance for doubtful receivables | (6,885) | 6,136 | 10,070 |
| Change in deferred revenue | 94,485 | 4,081 | 309 |
| Change in reserve for self-insured liabilities | (7,338) | 7,918 | (3,768) |
| Change in other liabilities | (2,141) | (650) | (4,393) |
| Change in refundable advances under Federal Student Loan Program | (437) | 458 | (115) |
| **Net cash and cash equivalents (used in)/provided by operating activities** | **(48,296)** | **3,643** | **16,171** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investments | 397,929 | 343,516 | 373,782 |
| Purchases of investments | (396,138) | (346,287) | (384,598) |
| Return on unexpended bond proceeds | 5,413 | 35,885 | 25,345 |
| Proceeds from property/land sale | 23,035 | - | 1,709 |
| Purchases and renovations of long-lived assets | (8,946) | (45,870) | (63,212) |
| Restricted contributions | (6,832) | (1,548) | (1,162) |
| **Net cash and cash equivalents provided by/(used in) investing activities** | **14,461** | **(14,304)** | **(48,136)** |
| **Cash flows from financing activities** | | | |
| Proceeds from notes payable | 88,000 | 30,000 | 100,000 |
| Payment on notes payable | (186,971) | (1,476) | (76,052) |
| Proceeds from bonds payable | 160,000 | - | - |
| Payment on bonds payable | (1,998) | (576) | (508) |
| Financing leases, net | (9,170) | (10,637) | (10,148) |
| Student loans issued | (726) | (1,218) | (3,821) |
| Student loans collected | 640 | 722 | 1,357 |
| Proceeds from restricted contributions | 6,832 | 1,548 | 1,162 |
| **Net cash and cash equivalents provided by financing activities** | **56,607** | **18,363** | **11,990** |
| Net increase (decrease) in cash and cash equivalents | 22,772 | 7,702 | (19,975) |
| Cash and cash equivalents at beginning of year | 22,522 | 14,820 | 34,795 |
| **Cash and cash equivalents at end of period** | **$ 45,294** | **$ 22,522** | **$ 14,820** |
| **Supplemental cash flow information:** | | | |
| Cash paid for interest | $ 25,525 | $ 24,513 | $ 23,111 |
| **Supplemental non-cash investing activities**: | | | |
| Acquisition of equipment under capital leases, net | 727 | - | 6,918 |
| Stock distributions | 344 | - | - |
| **Supplemental non-cash financing activities:** | | | |
| Donated securities | - | 215 | 2,254 |

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

## Note 1 Summary of Significant Accounting Policies

### (a) *Description of the University*

The Howard University (Howard) is a private, nonprofit institution of higher education (the University) which also operates Howard University Hospital (the Hospital) located in Washington, DC. The University provides academic services in the form of education and training, primarily for students at the undergraduate, graduate and postdoctoral levels, and performs research, training and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States government. Howard also provides patient healthcare services at the Hospital and by certain members of the University's faculty as part of its academic clinical activities.

The consolidated financial statements also include the activities of Howard University International (HUI), Howard University Global Initiative – Nigeria, LTD/GTE. (HUGIN), Howard University Technical Assistance Program in Malawi Limited (HUTAP), and Howard University Global Initiative South Africa NPC (HUGISA), wholly-owned subsidiaries of the University. The activities and balances of these entities are reflected in the statements of activities and statements of position, and any intercompany balances have been eliminated in consolidation.

The Hospital has a 49% joint venture interest in the Howard University Dialysis Center LLC (LLC). Howard accounts for its interest in the LLC using the equity method which requires Howard to record a proportional share of the LLC's net income or loss as increases and decreases to the initial investment are received.

Howard is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax. Any unrelated business income tax generated by Howard is recorded as income tax using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or to be settled. As of June 30, 2016, 2015, and 2014, Howard had no unrelated business income and therefore had no deferred tax assets or liabilities. In addition, Howard analyzed its tax positions for the years ended June 30, 2016, 2015, and 2014, and determined that there were no uncertain tax positions that would have a material impact on Howard's consolidated financial statements.

(b) ***Basis of Presentation***

The consolidated financial statements of Howard have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Howard has elected to show summarized comparative financial information with respect to Howard's statement of activities for the years ended June 30, 2015 and 2014. Such summarized information is prepared in a manner consistent with the statement of activities information from which it was derived.

(c) ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts realized or paid could differ significantly from the amounts reported for these assets and liabilities. Significant items subject to such estimates and assumptions include the carrying value of receivables, accumulated depreciation related to property, plant and equipment and investments whose fair values are not readily determinable; and the adequacy of reserves for professional liabilities, retirement benefits, self-insured health benefits, self-insured workers' compensation and environmental liabilities.

(d) ***Change in Accounting Estimate***

As a result of a new study completed in 2016, Howard revised its estimate of its liability related to the abatement of asbestos found in its facilities for FY 2016, resulting in a reduction of net expenses and the liability by $5,200 and $7,900, respectively.

(e) ***Changes in Accounting Principle***

In FY 2016 Howard completed an early adoption of ASU 2016-02 (Topic 842), Leases, which is a change in accounting principle. See note 17 for a description of the impact of this change on the financial statements.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

(f) ***Net Assets***

Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

**Unrestricted** – Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** – Net assets subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions pursuant to those stipulations.

**Permanently restricted** – Net assets subject to donor-imposed stipulations that do not expire with time or University action. Generally, the donors of these assets permit Howard to use all or part of the income earned on related investments for general or specific purposes.

Contributions are reported in the appropriate category of revenue, except that contributions with donor-imposed restrictions met in the same fiscal year are included in unrestricted revenues. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from temporarily restricted net assets to unrestricted net assets. Donor restrictions on gifts to acquire long-lived assets are considered fulfilled in the period in which the assets are acquired or placed in service.

(g) ***Receivables and Revenue Recognition***

(1) **Contributions,** including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the gift date. Howard has elected not to recognize or capitalize contributions of works of art, historical treasures, and similar assets held as part of collections. Contribution revenue for fiscal years ended June 30, 2016, 2015, and 2014 are shown below:

| Contributions Revenue | 2016 | 2015 | 2014 |
|---|---|---|---|
| Unrestricted | $ 4,156 | $ 4,970 | $ 3,601 |
| Temporarily restricted | (433) | 5,924 | 7,535 |
| Permanently restricted | 6,832 | 1,548 | 1,162 |
| **Total contributions revenue** | **$ 10,555** | **$ 12,442** | **$ 12,298** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Unconditional promises to give with payments to be received after one year from the date of the consolidated financial statements are discounted. Allowance is made for creditworthiness of the donors, past collection experience, and other relevant factors.

**Tuition and fees** from student services are recognized ratably over the academic time period to which they apply. A portion of tuition and fees charged in the current fiscal year for the summer term are recognized in the following fiscal year due to summer sessions between May and July crossing fiscal years. To incentivize students to earn their degree early or on-time, Howard University has established a tuition rebate, 50% off of the final semester's tuition, to on-time or early graduates. The rebate is applicable to direct payments made to the University by the student or family toward the final semester's tuition.

**Student receivables** represent unpaid tuition and fees assessed in current and prior periods that are generated when a student registers for classes through the University's formal registration process. Howard maintains a policy of offering qualified applicants admission to the University without regard to financial circumstance. Student financial aid is generally fulfilled through a combination of scholarships, fellowships, loans and employment during the academic year. Tuition and fees are recorded net of discounts for scholarships (merit, talent, and need based), fellowships, graduate remission and employee tuition remission. Funding for financial aid may come from donor designated sources or from unrestricted operations and assets. Financial aid for fiscal years ended June 30, 2016, 2015, and 2014 was $101,434, $110,239 and $92,923, respectively.

| Net Tuition Revenue | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Gross tuition and fees** | **$ 256,887** | **$ 264,307** | **$ 257,645** |
| Financial aid: | | | |
| Merit | 64,115 | 64,925 | 53,373 |
| Need | 15,142 | 18,967 | 16,683 |
| Talent | 6,304 | 6,861 | 7,183 |
| Other | 15,873 | 19,486 | 15,684 |
| **Total financial aid** | **$ 101,434** | **$ 110,239** | **$ 92,923** |
| **Total net tuition** | **$ 155,453** | **$ 154,068** | **$ 164,722** |

(2) **Other income** represents income from activities other than core business operations and is recognized as revenue in the period it is received.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

(3) **Federal Appropriation** revenue is recognized when received and expended. Howard receives a Federal appropriation that can be used for support of the University's educational mission, a portion of which is held as a temporarily restricted term endowment. For fiscal years ended June 30, 2016, 2015, and 2014, Howard received 28%, 27% and 28%, respectively, of its revenue support from the Federal appropriation. The $4,302, $3,405 and $3,405, receivable for the fiscal years ended June 30, 2016, 2015, and 2014, respectively, represents the portion to be collected on the Federal term endowment as defined in Note 13.

(4) **Net patient service revenue** is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and bad debt expense. The Hospital and University faculty physicians have arrangements with third-party payors that provide for payments at established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per-diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient and third party healthcare payor receivables are the amount due for patient care services rendered by the University's Faculty Practice Plan (FPP) and the Hospital.

| Net Patient Service Revenue | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Gross Revenues** | **$ 645,624** | **$ 659,509** | **$ 725,111** |
| Third-party settlement revenue | 46,637 | 58,716 | 49,952 |
| Contractual allowances and adjustments | (411,292) | (410,244) | (494,137) |
| Charity services | (5,468) | (12,276) | (8,241) |
| Bad debt | (18,820) | (36,939) | (26,929) |
| **Total net patient service revenue** | **$ 256,681** | **$ 258,766** | **$ 245,756** |
| **% of contractuals and charity services of gross revenues** | **65%** | **64%** | **69%** |

(5) **Grants and contracts** revenue is recognized when reimbursable expenses are incurred (for cost plus contracts) or when deliverables or milestones are met (for fixed price contracts). These revenues include recoveries of eligible direct expenses and indirect costs for facilities and administration, which are generally determined as a negotiated or agreed-upon percentage of direct costs. Receivables under research grants and development agreements represent the amounts due from Federal, state, local, private grants, contracts and others.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

| Grants and contracts revenue | 2016 | 2015 | 2014 |
|---|---|---|---|
| Reimbursement of direct expenses | $ 48,324 | $ 55,608 | $ 49,651 |
| Recovery of indirect costs | 8,055 | 8,842 | 7,397 |
| **Total grants and contracts revenue** | **$ 56,379** | **$ 64,450** | **$ 57,048** |
| **Indirect costs recovery as a % of direct costs** | **17%** | **16%** | **15%** |

Grants and contracts revenue by type is detailed in the table below.

| Grants and contracts revenue by type | 2016 | 2015 | 2014 |
|---|---|---|---|
| Research | $ 34,178 | $ 34,590 | $ 32,119 |
| Training | 12,188 | 16,427 | 13,873 |
| Service/other | 10,013 | 13,433 | 11,056 |
| **Total grants and contracts revenue by type** | **$ 56,379** | **$ 64,450** | **$ 57,048** |

(6) **Auxiliary services** revenue is generally recognized when services are rendered or as activities have been completed. Auxiliary receivables are comprised primarily of amounts due from advertisers on Howard's commercial radio station WHUR, bookstore vendors and property rents.

| Auxiliary services revenue | 2016 | 2015 | 2014 |
|---|---|---|---|
| Student housing | $ 23,622 | $ 24,913 | $ 32,370 |
| Radio station | 9,900 | 11,507 | 12,851 |
| Meal plans | 14,141 | 13,145 | 10,321 |
| Bookstore | 706 | 665 | 5,094 |
| Property rentals | 1,503 | 1,508 | 1,505 |
| Parking fees | 544 | 657 | 775 |
| Vending sales and fees | 432 | 752 | 678 |
| Ticket sales | 923 | 303 | 793 |
| Licensing | 72 | 79 | 11 |
| Other | 638 | 469 | 539 |
| **Total auxiliary services revenue** | **$ 52,481** | **$ 53,998** | **$ 64,937** |

(7) **Notes receivable** represent loans the University extended to students from institutional resources and Federal Student Loan programs with outstanding balances, which includes Federal Perkins Loans. Management regularly assesses the adequacy of the allowance for credit losses on student loans by performing ongoing evaluations of the student loan portfolio, including the financial condition of specific borrowers, the economic environment in which the borrowers operate, and the level of delinquent loans.

Howard's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under this Program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations, the Federal portion of the loan balance is guaranteed.

(h) ***Cash and Cash Equivalents***

Short-term investments with maturities at date of purchase of nine months or less are classified as cash equivalents, except that any such investments purchased with funds on deposit with bond trustees, or with funds held in trusts or by external endowment investment managers are classified as Deposits with trustees or Investments, respectively. Cash equivalents include certificates of deposit, short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at approximate fair value.

(i) ***Investments***

Investments are segregated between operating, restricted and endowment investments and deposits with trustees on the consolidated statements of financial position, all of which are stated at fair value and defined as follows:

***Operating Investments*** – represent investments free of any donor or lender imposed restrictions. These investments are short-term in nature and can be liquidated at the discretion of the Board of Trustees (the "Board") to meet operational demands.

***Restricted Investments*** – represent non-endowed investments whose principal and or income are restricted by external sources, including liquidation restrictions. The use of the principal and interest of these investments is not subject to the discretion of the Board and as such they are not available to meet the operational needs of the University.

***Endowment Investments*** – represent the pooled endowment and the Federal matching endowment investments. The endowment investments are spread across various asset categories with the use of the income from these investments restricted based on stated donor stipulations.

Fair values of the University's investments are determined by the most relevant available and observable valuation inputs as defined in Note 12. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based upon average historical value (cost of securities purchased or the fair market value at date of gift, if received by donation). Dividend and interest income are recorded on an accrual basis. Accrued but unpaid dividends, interest and proceeds from investment sales at the report date are recorded as investment receivables.

Realized and unrealized investment gains and losses are allocated in a manner consistent with interest and dividends, to either unrestricted, temporarily restricted or permanently restricted net assets (distinguished between operating and non-operating), based on donor intent or lack thereof. Such amounts may be expended for operations, for specified donor purposes if temporarily restricted, or held in perpetuity at the donor's request. Realized and unrealized investment gains and losses on loan funds are accumulated in permanently restricted net assets.

Operating investment income includes interest, dividends and operating investment returns. This balance is calculated using operating investments as a percentage of total Level 1 investments in common stock and mutual funds.

(j) ***Inventories, Prepaids and Other Assets***

Inventories consist primarily of medical supplies, and are recorded at the lower of cost or realizable value on a first-in, first-out basis. Prepaids consist primarily of insurance, dues, subscriptions and other fees and are amortized over the useful period. Other assets consist primarily of unamortized bond issuance costs, deferred health charges, intellectual property, beneficial interest trust and investment interest in a dialysis joint venture (see Note 21).

(k) ***Long-Lived Assets***

Long-lived assets include right to use assets – operating and financing as well as property, plant and equipment balances for Howard. Property, plant and equipment are stated at cost or at fair value if received by gift, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives for fiscal years reported are as follow:

| | |
|---|---|
| Land and land improvements | 0-25 years |
| Building and building improvements | 5-40 years |
| Furniture and equipment | 3-20 years |
| Software | 3-10 years |
| Library books | 10 years |

Property, plant and equipment acquired under financing leases are amortized over the life of the lease.

Property, plant and equipment is capitalizable when the unit cost is equal to or exceeds $3 and has a useful life of more than one year.

Title to certain equipment purchased using funds provided by government grants or contracting agencies is vested with Howard, and therefore is included in reported property balances. Interest costs eligible for capitalization are the costs of restricted borrowings, less any interest earned on temporary investment of the proceeds of those borrowings, from the date of borrowing until qualifying assets are intended for use. The recorded values of certain properties include the fair value of any asset retirement obligation necessary to meet contractual or regulatory requirements for disposal or remediation of the property. This primarily pertains to the cost of removal and disposal of asbestos.

(l) ***Refundable Advances Under Federal Student Loan Program***

Funds provided by the United States Department of Education under the Federal Student Loan Programs are loaned to qualified students and may be re-loaned after collections. The portion of these funds provided by the Department of Education are ultimately refundable to the Department of Education and are reported as liabilities in the consolidated statements of financial position and as cash flows from financing activities in the consolidated statements of cash flows. Loans issued to students are reported as part of receivables in the consolidated statements of financial position.

(m) ***Operating Expenses by Category***

Expenses were incurred for the following categories for the years ended June 30, 2016, 2015, and 2014:

| **Operating expenses (in thousands)** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Salaries and wages | $ 347,750 | $ 365,126 | $ 385,707 |
| Employee benefits other than retirement plans | 61,419 | 78,451 | 73,981 |
| Retirement plans excluding amortization | 2,246 | 12,327 | 15,366 |
| **Total employment expenses** | **411,415** | **455,904** | **475,054** |
| Telecommunications | 8,114 | 9,987 | 10,772 |
| Utilities | 22,704 | 18,573 | 21,589 |
| Medical and office supplies | 30,293 | 38,737 | 39,889 |
| Repairs and maintenance | 23,651 | 28,267 | 21,763 |
| Food service costs | 15,875 | 14,694 | 13,495 |
| Grant subcontracts | 17,682 | 20,194 | 19,752 |
| Insurance and risk management | 22,032 | 28,179 | 27,473 |
| Professional and administrative services | 131,398 | 132,443 | 125,413 |
| Provision for bad debts | 9,349 | 9,483 | 5,939 |
| **Total operating expenses exclusive of interest, depreciation and amortization expense** | **692,513** | **756,461** | **761,139** |
| Interest expense | 25,133 | 24,730 | 23,025 |
| Depreciation | 44,883 | 51,596 | 55,900 |
| Amortization of retirement plan actuarial losses | 8,927 | 9,361 | 8,672 |
| **Total operating expenses** | **$ 771,456** | **$ 842,148** | **$ 848,736** |

Howard presents its Statements of Activities by function. Howard allocates its expenses on a functional basis among its various programs and institutional support. Expenses that can be identified with a specific program are charged directly. Costs related to the operation and maintenance of physical plant including utilities, depreciation of fixed assets and interest expense, are allocated among programs and institutional support based upon square footage.

(n) ***Reserves for Self-Insured Liabilities***

The reserve for self-insured liabilities is comprised primarily of amounts accrued for asserted medical malpractice and worker's compensation claims and includes estimates of the ultimate cost to resolve such claims. The reserve also includes an estimate of the cost to resolve unasserted claims that actuarial analyses indicate are probable of assertion in the future. Medical malpractice claim reserves are stated at an undiscounted amount.

(o) ***Other Liabilities***

Other liabilities are comprised primarily of unclaimed property, student deposits, deposits held in custody for others, reserves for legal and other contingencies and miscellaneous items.

(p) ***Compensated Absences***

Howard records an amount due to employees for future absences, which are attributable to services performed in the current and prior periods and subject to a maximum carryover. This obligation is recognized on the consolidated statements of financial position as part of accounts payable and accrued expenses. At fiscal years ended June 30, 2016, 2015, and 2014 the obligation was $5,283, $5,848 and $7,421, respectively.

(q) ***Pension and Post-Retirement Benefits***

The funded status of Howard's pension benefit (the "Plan") is actuarially determined and recognized in the consolidated statements of financial position as an asset to reflect an overfunded status, or as a liability to reflect an underfunded status. Howard's actuarially determined post-retirement benefit obligation is recognized on the consolidated statements of financial position as a liability. Howard follows the Internal Revenue Service (IRS) guidelines in the administration of the Plan.

(r) ***Measure of Operations***

Howard includes in its measure of operations all revenue and expenses that are integral to its continuing core program services with the key objective being predictability of indicated results. Such measures include the amortization of actuarial gains and losses previously recorded as non-operating items. Howard uses a spending rate methodology to determine the amount of endowment assets allocated to operations in a given year. Non-operating income and expenses include realized and unrealized appreciation (depreciation), investments, changes in retirement plan liabilities due to market factors, restructuring costs and (charges) credits that do not pertain to continuing core program services.

(s) ***New Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02 (Topic 842), *Leases*, which supersedes lease requirements in ASU 2013-270 (Topic 840). Topic 842 establishes the principles that lessees and lessors shall report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease by increasing transparency and comparability by recognizing lease assets and lease liabilities on the Statement of Financial Position. Howard University is adopting ASU 2016-02. Early adoption has resulted in an update to Lease disclosure, as described in Footnote 17.

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, *Financial Instruments*, requiring all equity investments to be measured at fair value with changes in the fair value recognized through net income, other than those accounted for under the equity method of accounting or those that result in consolidation of the investee. Howard is evaluating adopting ASU 2016-01.

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03 (Subtopic 835-30), *Interest - Imputation of Interest, Simplifying the Presentation of Debt Issuance Costs*, so cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. ASU 2015-03 requires that debt issuance cost related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Howard University is evaluating adopting ASU 2015-03.

(t) ***Reclassification***

Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications did not have any impact on the University's previously reported net asset balances.

## Note 2 Fundraising Expenses

For fiscal years ended June 30, 2016, 2015, and 2014, Howard incurred expenses of approximately $4,691, $5,684 and $4,803, respectively, in connection with its fundraising activities. These amounts are reflected on the accompanying consolidated statements of activities within each respective expense category, as appropriate.

## Note 3 Charity Care

The Hospital provides services to patients who meet the criteria of its charity care policy without charge, or at amounts less than established rates. The criteria for charity services are comprised of family income, net worth and eligibility at time of application. In addition the Hospital provides services to patients under the District of Columbia charity care program, DC Alliance. The total of charges foregone for services furnished under the Hospital's charity care policy and the DC Alliance program were $5,468, $12,276 and $8,241 for fiscal years ended June 30, 2016, 2015, and 2014, respectively.

Total uncompensated care charges under all of Howard's clinical services which includes bad debt write offs as well as charity care, for fiscal years ended June 30, 2016, 2015, and 2014 were $24,288, $49,215 and $35,170, respectively.

## Note 4 Insurance and Risk Management

Howard, along with 16 other institutions of higher education, is a subscriber in Pinnacle Consortium of Higher Education, a Vermont Reciprocal Risk Retention Group. Pinnacle provides commercial general and certain specific liability coverage. Howard's annual payments to Pinnacle for insurance coverage are based on actuarial studies and are charged to expense. Through December 31, 2015, Pinnacle reinsured 95% of its risk to Genesis, Ltd. (Genesis), an affiliated reinsurer. Genesis, a Class 2 reinsurer under the Insurance Act of 1978 of Bermuda, was jointly formed by Howard and 16 other higher education institutions. Genesis reinsured general liability and automobile liability risks of its shareholders. On January 1, 2016, Genesis merged into Pinnacle. At June 30, 2016, Howard had an approximate 6% interest in Pinnacle. Howard's interest in Pinnacle is included in restricted investments. Liability insurance coverage in excess of the primary coverage has been purchased by Howard, with limits of $125,000 from commercial insurance companies.

Howard is self-insured for initial layers of medical malpractice, worker's compensation, and employee health benefits. The reserves for self-insured risks are actuarially determined and Howard has set aside assets in revocable trusts to partially fund these self-insured risks.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The self-insured program covers professional liability costs up to $7,500 per occurrence depending on the cause. In addition, there are two layers of excess insurance coverage. The first layer of the excess insurance coverage is up to $35,000 on a claims-made basis. This layer is purchased through a captive insurance company, Howard University Capitol Insurance Company Ltd. (HUCIC), organized under the laws of the Cayman Islands. HUCIC covers prior acts retroactive to two separate policy periods dating July 1, 1996 and January 1, 1986, and is completely reinsured. The second layer of excess liability insurance which also covers patient care related general liability and professional liability, is up to $50,000 on a claims-made basis. The second layer of excess coverage is provided by an independent excess insurance company.

The types of insurance and risk management coverages are detailed in the table below:

| Insurance and Risk Management | 2016 | 2015 | 2014 |
|---|---|---|---|
| Malpractice claims expense | $ 5,176 | $ 13,667 | $ 14,705 |
| Malpractice excess insurance | 1,470 | 1,414 | 1,590 |
| Student sickness | 11,622 | 9,430 | 6,771 |
| General and other | 3,764 | 3,668 | 4,407 |
| **Totals** | **$ 22,032** | **$ 28,179** | **$ 27,473** |

## Note 5 Restructuring Costs

Restructuring costs represent non-recurring expenses required to facilitate management, faculty and staff changes resulting from Howard's various renewal initiatives. In fiscal years 2016, 2015, and 2014, Howard implemented a reduction-in-force to better align the number of administrative staff with expected needs and its financial capacity. Severance and other payments related thereto amounted to $44, $10,502 and $3,433, respectively. Additionally, Howard implemented a Faculty Phased Retirement Program with incentive payments of $19,816 payable between September 2012 and September 2017, which was accrued as of June 30, 2012. As of June 30, 2016, $2,088 is accrued, reflecting $17,728 of cumulative payment activity.

## Note 6 Concentration of Risks

Financial instruments that potentially subject Howard to significant concentrations of credit risk consist principally of deposits of cash, cash equivalents, and investments in financial institutions in excess of the applicable government insurance limits. The limit was $250 per account as of June 30, 2016. Aggregate cash and cash equivalent balances maintained at financial institutions exceed the amount guaranteed by federal agencies, but Howard has not experienced any loss due to this risk. Concentrations of credit risk with respect to receivables pertain mainly to self-pay patients of Howard's clinical services, and to students. Financial instruments that potentially subject Howard to market risk consist primarily of investments. Howard attempts to mitigate this risk through its investment strategy.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 7 Receivables

Accounts receivable, prior to adjustment for doubtful collections, are summarized as follows at fiscal years ended June 30, 2016, 2015, and 2014:

| Receivables | 2016 | 2015 | 2014 |
|---|---|---|---|
| Student | $ 131,905 | $ 31,643 | $ 20,151 |
| Notes | 15,607 | 15,521 | 15,024 |
| Federal appropriation | 4,302 | 3,405 | 4,290 |
| Patients and third-party payors - Hospital | 73,423 | 64,532 | 88,326 |
| Patients and third-party payors - FPP | 18,970 | 25,070 | 16,611 |
| Patients and third-party payors - Dental | 3,628 | 2,631 | 1,851 |
| Grants and contracts | 15,006 | 14,860 | 17,343 |
| Contributions | 3,643 | 6,861 | 4,566 |
| Insurance claims | 7,526 | 12,355 | 14,057 |
| Auxiliary services | 5,673 | 6,856 | 6,176 |
| Other | 6,829 | 4,436 | 3,532 |
| **Total** | **$ 286,512** | **$ 188,170** | **$ 191,927** |

Other receivables includes checks pending deposit at period and year end, and certain vendor credit balances.

Allowance for doubtful receivables is summarized as follows at fiscal years ended June 30, 2016, 2015, and 2014:

| Allowance for Doubtful Receivables | 2016 | 2015 | 2014 |
|---|---|---|---|
| Student | $ 23,327 | $ 16,979 | $ 10,444 |
| Notes | 5,821 | 2,789 | 3,210 |
| Patients and third-party payors - Hospital | 26,649 | 33,226 | 38,943 |
| Patients and third-party payors - FPP | 1,357 | 9,465 | 4,349 |
| Patients and third-party payors - Dental | 1,409 | 660 | 571 |
| Grants and contracts | 1,119 | 3,308 | 4,505 |
| Contributions | 2,055 | 2,527 | 1,623 |
| Insurance claims | 1,689 | 1,689 | 1,326 |
| Auxiliary services | 531 | 152 | 109 |
| Other | 115 | 114 | 114 |
| **Totals** | **$ 64,072** | **$ 70,909** | **$ 65,194** |
| **Total receivables, net** | **$ 222,440** | **$ 117,261** | **$ 126,733** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Provision for bad debt is summarized as follows at fiscal years ended June 30, 2016, 2015, and 2014:

| Provision for Bad Debt | 2016 | 2015 | 2014 |
|---|---|---|---|
| ***Non-clinical services:*** | | | |
| Student services | $ 8,583 | $ 6,762 | $ 5,011 |
| Research grants and development agreements | 848 | 1,739 | 717 |
| Insurance claims | - | (22) | (162) |
| Auxiliary services | 389 | 100 | 234 |
| Uncollectible pledges | (471) | 904 | 266 |
| Other | - | - | (127) |
| **Total non-clinical** | **$ 9,349** | **$ 9,483** | **$ 5,939** |
| ***Clinical services:*** | | | |
| Patients and third-party payors - Hospital | 19,504 | 22,872 | 20,057 |
| Patients and third-party payors - FPP | (1,480) | 13,919 | 6,755 |
| Patients and third-party payors - Dental | 796 | 148 | 117 |
| **Total clinical services** | **$ 18,820** | **$ 36,939** | **$ 26,929** |
| **Total provision for bad debt** | **$ 28,169** | **$ 46,422** | **$ 32,868** |

Bad debt expense of $9,349, $9,483 and $5,939 for fiscal years ended June 30, 2016, 2015, and 2014, respectively, reflected in total operating expenses on the statements of activities excludes bad debt expense related to certain clinical services determined to be uncollectible. Clinical services bad debt expense, as shown in the table above, has been netted against patient service revenues.

Contributions receivable at June 30, 2016, 2015, and 2014 are expected to be received as follows:

| Contributions Receivable | 2016 | 2015 | 2014 |
|---|---|---|---|
| Within one year | $ 2,731 | $ 5,529 | $ 4,314 |
| Between one and five years | 1,554 | 1,026 | 274 |
| Thereafter | 402 | 604 | 4 |
| Contributions receivable gross | 4,687 | 7,159 | 4,592 |
| Unamortized discount on contributions receivable (2%-6.5%) | (1,044) | (298) | (26) |
| Contributions receivable, net of discounts | 3,643 | 6,861 | 4,566 |
| Allowance for uncollectible contributions | (2,055) | (2,527) | (1,623) |
| Contributions receivable, net of discounts and allowance | $ 1,588 | $ 4,334 | $ 2,943 |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 8 Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts at fiscal years ended June 30, 2016, 2015, and 2014 are as follows:

| Inventories, Prepaids and Other Assets | 2016 | 2015 | 2014 |
|---|---|---|---|
| Inventories - Hospital | $ 3,568 | $ 3,416 | $ 4,679 |
| Prepaid expenses | 5,450 | 6,709 | 6,154 |
| Unamortized bond issuance costs | 4,937 | 4,563 | 4,778 |
| Deferred health charges | - | - | 1,414 |
| Dialysis joint venture interest | 5,588 | 5,638 | 5,337 |
| Beneficial interest trust | 10,286 | 5,038 | 4,968 |
| Self-insured assets | 7,972 | - | - |
| Intellectual property costs | 1,530 | 1,530 | 1,682 |
| Other | 227 | 205 | 193 |
| **Total** | **$ 39,558** | **$ 27,099** | **$ 29,205** |

## Note 9 Accounts Payable and Accrued Expenses

Components of this liability account at fiscal years ended June 30, 2016, 2015, and 2014 are as follows:

| Accounts Payable and Accrued Expenses | 2016 | 2015 | 2014 |
|---|---|---|---|
| Vendor invoices | $ 55,705 | $ 97,677 | $ 73,739 |
| Accrued salaries and wages | 24,083 | 22,823 | 21,930 |
| Accrued employee benefits | 7,224 | 6,984 | 7,194 |
| Accrued annual leave | 5,283 | 5,848 | 7,421 |
| Accrued faculty retirement incentive payments | 2,088 | 3,610 | 6,118 |
| Accrued interest | 4,680 | 5,071 | 4,822 |
| Other | 419 | 1,337 | 1,731 |
| **Total** | **$ 99,482** | **$ 143,350** | **$ 122,955** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 10 Other Liabilities and Deferred Revenue

These obligations include the following at fiscal years ended June 30, 2016, 2015, and 2014:

| Other liabilities | 2016 | 2015 | 2014 |
|---|---|---|---|
| Asset retirement obligation | $ - | $ 13,514 | $ 13,128 |
| Environmental remediation | - | 3,000 | 3,000 |
| Environmental liabilities | 8,887 | - | - |
| Due to Provident | 5,977 | - | - |
| Unclaimed property | 3,499 | 2,644 | 2,879 |
| Student deposits and refunds | 2,578 | 3,300 | 2,725 |
| Reserve for legal contingencies | 235 | 1,574 | 3,664 |
| Deposits held in custody for others | 1,376 | 1,702 | 2,425 |
| Other | 1,237 | 3,791 | 2,354 |
| **Total** | **$ 23,789** | **$ 29,525** | **$ 30,175** |

| Deferred revenue | 2016 | 2015 | 2014 |
|---|---|---|---|
| Deferred tuition, room and board | $ 94,100 | $ 2,932 | $ 2,825 |
| Deferred grant revenue | 11,810 | 8,430 | 6,677 |
| Deferred savings incentive revenue | 1,775 | 2,375 | - |
| Other | 881 | 344 | 498 |
| **Total** | **$ 108,566** | **$ 14,081** | **$ 10,000** |

Howard recorded an asset retirement obligation in FY06 to comply with FIN 47 (prior to the issuance of ASC 410) and subsequently updated the estimate in FY09. In FY16 a study was performed to review the documentation and methodology used the establish the remediation liability. Based on the study, the liability does not qualify for ASC 410 treatment and is considered a general liability. Accordingly, in FY16, the liability was reduced by $7,900 and the net expense impact of $5,200 is recorded as a reduction to institutional support.

Howard's environmental remediation liability has been discounted using a rate of 4.9%. Amounts for the fiscal years ended June 30, 2016, 2015, and 2014, were as follows:

| Environmental liabilities | 2016 | 2015 | 2014 |
|---|---|---|---|
| Asset retirement costs | $ 969 | $ 4,565 | $ 4,565 |
| Accumulated depreciation | 841 | 2,253 | 2,205 |
| Accretion expense | (2,662) | 344 | 410 |
| Asset retirement obligation | - | 13,514 | 13,128 |
| Environmental liabilities | 8,887 | - | - |
| **Total** | **$ 8,035** | **$ 20,676** | **$ 20,308** |

Howard incurred costs related to asbestos abatement during fiscal years ended June 30, 2016, 2015, and 2014 of $113, $234 and $135, respectively.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 11 Deposits with Trustees and Self-insured Liabilities

| | Dedicated Assets | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Debt service reserve | $ 12,848 | $ 12,847 | $ 12,880 |
| Professional liability | 15 | 16 | 5 |
| Workers' compensation | 10 | 10 | 12 |
| Health insurance trust | 1,778 | 1,384 | 956 |
| **Total** | **$ 14,651** | **$ 14,257** | **$ 13,853** |

| | Liabilities | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Debt service reserve | NA | NA | NA |
| Capitalized interest | NA | NA | NA |
| Professional liability | $ 59,127 | $ 55,671 | $ 54,365 |
| Workers' compensation | 21,234 | 28,891 | 27,956 |
| Health insurance trust | 6,850 | 9,987 | 4,310 |
| **Total** | **$ 87,211** | **$ 94,549** | **$ 86,631** |

NA = Not applicable

### (a) *Debt Service Reserve Fund*

As required by the 2011 Revenue Bonds, Howard maintains a debt service reserve fund in an amount greater than or equal to the Debt Service Fund Requirement of $12,634 for all periods reported. The assets in the debt service reserve fund consist primarily of cash, fixed income investments and other short-term securities.

### (b) *Professional Liability*

Howard is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and certain faculty physicians and are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2016. It is the opinion of management based on the advice of actuaries and legal counsel that estimated malpractice costs accrued for fiscal years ended June 30, 2016, 2015, and 2014 of approximately $59,127, $55,671 and $54,365, respectively is adequate to provide for losses resulting from probable unasserted claims and pending or threatened litigation.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Professional liability activity is summarized as follows for fiscal years ended June 30, 2016, 2015, and 2014 in the table below.

| **Professional Liability** | **2016** | | **2015** | | **2014** | |
|---|---|---|---|---|---|---|
| Beginning balance | $ | 55,671 | $ | 54,365 | $ | 55,204 |
| Malpractice claims expense | | 5,176 | | 13,667 | | 14,705 |
| Settlement payments | | (1,720) | | (12,361) | | (15,544) |
| **Ending balance** | **$** | **59,127** | **$** | **55,671** | **$** | **54,365** |

**(c)** ***Workers' Compensation***

Prior to July 1, 2012, Howard had established a revocable trust fund to partially provide for the satisfaction of its liability under applicable workers' compensation liability. The assets in the workers' compensation trust fund consisted of U.S. Treasury Bills and obligations, as well as domestic and foreign corporate bonds. As of June 30, 2016, workers' compensation liabilities are being satisfied as claims arise. Howard also maintains $7,972 in letters of credit, which serve as collateral for specific insurance carriers. Howard is self-insured for workers' compensation claims up to per occurrence retention of $500. The excess is covered through commercial insurance.

For fiscal years ended June 30, 2016, 2015, and 2014 expenses related to workers' compensation were $(4,327), $3,860 and $3,234, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately $21,234, $28,891 and $27,956 at June 30, 2016, 2015, and 2014, respectively, and includes liabilities for claims covered under existing insurance policies. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. This liability is recorded on the accompanying consolidated statements of financial position in reserves for self-insured liabilities. Estimated claims for which payments will be covered under existing insurance policies were $5,837, $10,666 and $12,731 at June 30, 2016, 2015, and 2014, respectively, net of allowances for uncollectible amounts and are reflected in other receivables.

**(d)** ***Health Insurance***

Prior to July 1, 2012, Howard established a revocable self-insured trust fund for the purpose of partially funding group health benefits for its employees. The assets consisted primarily of investments in money market funds. As of June 30, 2014, health insurance claims are being funded as incurred. Deposits to the fund are amounts withheld from employees' salaries and wages and Howard's contributions based on estimates established by the claims administrator. Disbursements from the fund are made in accordance with the payment plan established with the claims administrator. The total estimated liability for asserted and unasserted probable claims at June 30, 2016, 2015, and 2014, is approximately $6,850, $9,987 and $4,310, respectively.

## Note 12 Fair Value Measurements

Howard applies applicable accounting standards for fair value measurements, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. These accounting standards establish three categories for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date as follows:

- Level 1 – quoted market prices for identical assets or liabilities in active markets.
- Level 2 – quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; or other than quoted prices in which all significant inputs and significant value drivers are observable in active markets either directly or indirectly.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are not observable.

Howard's financial assets and liabilities as of June 30, 2016, 2015, and 2014 are subject to fair value accounting.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Fair value as of June 30, 2016 is as follows:

| Fair Value as of June 30, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| *Assets:* | | | | |
| Unexpended bond proceeds (6) | $ - | $ 5,027 | $ - | $ 5,027 |
| Deposits with trustees (7) | 1,734 | 12,917 | - | 14,651 |
| Other assets (8) | 7,972 | - | 5,588 | 13,560 |
| **Total assets (non investment)** | **$ 9,706** | **$ 17,944** | **$ 5,588** | **$ 33,238** |
| **Operating investments** | | | | |
| Fixed Income-Government Bonds (2) | - | - | - | - |
| Common Stock (3) | 34,433 | - | - | 34,433 |
| **Total operating investments** | **$ 34,433** | **$ -** | **$ -** | **$ 34,433** |
| **Restricted investments** | | | | |
| Money Market Instrument (1) | - | 1,001 | - | 1,001 |
| Common Stock (3) | 36,819 | - | - | 36,819 |
| Private Equity (4) | - | - | 2,902 | 2,902 |
| Real Estate (4) | - | - | 250 | 250 |
| **Total restricted investments** | **$ 36,819** | **$ 1,001** | **$ 3,152** | **$ 40,972** |
| **Endowment investments** | | | | |
| Money Market Fund (1) | 30 | 50,635 | - | 50,665 |
| **Common/collective trusts** | - | - | - | |
| Emerging Market Equity (3) | - | 43,281 | - | 43,281 |
| Global Fixed Income Security (2) | - | 32,196 | - | 32,196 |
| International Equity Security (3) | - | 96,687 | - | 96,687 |
| Domestic Common Stock (3) | - | 21,931 | - | 21,931 |
| Commodity Inflation Hedging (8) | - | 12,121 | - | 12,121 |
| **Common Stock (3)** | 42,511 | - | - | 42,511 |
| **Fixed income** | - | - | - | |
| Mortgage Backed Securities (2) | - | - | - | - |
| Corporate Bond (2) | - | 27 | - | 27 |
| **Hedge funds** | | | | |
| Distressed Debt (4) | - | - | - | - |
| Equity Long/short (4) | - | 12,683 | - | 12,683 |
| Event driven (4) | - | 158 | 12 | 170 |
| Global opportunities (4) | - | 6,108 | - | 6,108 |
| Multi-strategy (4) | - | 22,741 | 74 | 22,815 |
| **Mutual funds investment** | - | - | - | |
| Emerging Market Equity Security (3) | 28,133 | - | - | 28,133 |
| Domestic Common Stock (3) | 30,454 | - | - | 30,454 |
| Domestic Fixed Income (2) | 76,282 | - | - | 76,282 |
| International Equity Security (3) | 9,317 | - | - | 9,317 |
| **Limited partnerships (4)** | - | - | 75,778 | 75,778 |
| **Real estate (4)** | - | - | 16,863 | 16,863 |
| **Total endowment investments** | **$ 186,727** | **$ 298,568** | **$ 92,727** | **$ 578,022** |
| **Total investments** | **$ 257,979** | **$ 299,569** | **$ 95,879** | **$ 653,427** |
| Assets not subject to fair value reporting (9) | **1,164** | **-** | **-** | **1,164** |
| Liabilities not subject to fair value reporting (9) | **(2,054)** | **-** | **-** | **(2,054)** |
| **Total assets and liabilities measured at fair value** | **$ 266,795** | **$ 317,513** | **$ 101,467** | **$ 685,775** |

Level 3 investments were 15% of total investments.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Fair value as of June 30, 2015 is as follows:

| **Fair Value as of June 30, 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| ***Assets:*** | | | | |
| Unexpended bond proceeds (6) | $ - | $ 10,440 | $ - | $ 10,440 |
| Deposits with trustees (7) | 1,395 | 12,862 | - | 14,257 |
| Other assets (8) | - | - | 5,038 | 5,038 |
| **Total assets (non investment)** | **$ 1,395** | **$ 23,302** | **$ 5,038** | **$ 29,735** |
| **Operating investments** | | | | |
| Fixed Income-Government Bonds (2) | - | - | - | - |
| Common Stock (3) | 36,333 | - | - | 36,333 |
| **Total operating investments** | **$ 36,333** | **$ -** | **$ -** | **$ 36,333** |
| **Restricted investments** | | | | |
| Money Market Instrument (1) | - | 1,820 | - | 1,820 |
| Common Stock (3) | 44,091 | - | - | 44,091 |
| Private Equity (4) | - | - | 1,940 | 1,940 |
| Real Estate (4) | - | - | 250 | 250 |
| **Total restricted investments** | **$ 44,091** | **$ 1,820** | **$ 2,190** | **$ 48,101** |
| **Endowment investments** | | | | |
| Money Market Fund (1) | 283 | 38,730 | - | 39,013 |
| **Common/collective trusts** | | | | |
| Emerging Market Equity (3) | - | 27,543 | - | 27,543 |
| Global Fixed Income Security (2) | - | 30,848 | - | 30,848 |
| International Equity Security (3) | - | 104,663 | - | 104,663 |
| Domestic Common Stock (3) | - | 23,348 | - | 23,348 |
| Commodity Inflation Hedging (8) | - | 14,384 | - | 14,384 |
| **Common Stock (3)** | 46,703 | - | - | 46,703 |
| **Fixed income** | | | | |
| Corporate Bond (2) | - | 44 | - | 44 |
| **Hedge funds** | | | | |
| Distressed Debt (4) | - | 2,769 | - | 2,769 |
| Equity Long/short (4) | - | 13,541 | - | 13,541 |
| Event driven (4) | - | 3,328 | 3,096 | 6,424 |
| Global opportunities (4) | - | 6,233 | - | 6,233 |
| Multi-strategy (4) | - | 25,889 | 3,578 | 29,467 |
| **Mutual funds investment** | | | | |
| Emerging Market Equity Security (3) | 33,035 | - | - | 33,035 |
| Domestic Common Stock (3) | 30,915 | - | - | 30,915 |
| Domestic Fixed Income (2) | 74,038 | - | - | 74,038 |
| International Equity Security (3) | 9,814 | - | - | 9,814 |
| **Limited partnerships (4)** | - | - | 81,305 | 81,305 |
| **Real estate (4)** | - | - | 16,362 | 16,362 |
| **Total endowment investments** | **$ 194,788** | **$ 291,320** | **$ 104,341** | **$ 590,449** |
| **Total investments** | **$ 275,212** | **$ 293,140** | **$ 106,531** | **$ 674,883** |
| Assets not subject to fair value reporting (9) | **935** | - | - | **935** |
| Liabilities not subject to fair value reporting (9) | **(725)** | - | - | **(725)** |
| **Total assets and liabilities measured at fair value** | **$ 276,817** | **$ 316,442** | **$ 111,569** | **$ 704,828** |

Level 3 investments were 16% of total investments.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Fair value as of June 30, 2014 is as follows:

| Fair Value as of June 30, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| ***Assets:*** | | | | |
| Unexpended bond proceeds (6) | $ - | $ 46,325 | $ - | $ 46,325 |
| Deposits with trustees (7) | 968 | 12,885 | - | 13,853 |
| Other assets (8) | - | - | 4,968 | 4,968 |
| **Total assets (non investment)** | **$ 968** | **$ 59,210** | **$ 4,968** | **$ 65,146** |
| **Operating investments** | | | | |
| Fixed Income-Government Bonds (2) | 8,431 | - | - | 8,431 |
| Common Stock (3) | 31,664 | - | - | 31,664 |
| **Total operating investments** | **$ 40,095** | **$ -** | **$ -** | **$ 40,095** |
| **Restricted investments** | | | | |
| Money Market Instrument (1) | - | 3,434 | - | 3,434 |
| Common Stock (3) | 38,684 | - | - | 38,684 |
| Private Equity (4) | - | - | 1,872 | 1,872 |
| Real Estate (4) | - | - | 250 | 250 |
| **Total restricted investments** | **$ 38,684** | **$ 3,434** | **$ 2,122** | **$ 44,240** |
| **Endowment investments** | | | | |
| Money Market Fund (1) | 841 | 34,890 | - | 35,731 |
| **Common/collective trusts** | | | | |
| Emerging Market Equity (3) | - | 22,357 | - | 22,357 |
| Global Fixed Income Security (2) | - | 32,693 | - | 32,693 |
| International Equity Security (3) | - | 105,359 | - | 105,359 |
| Domestic Common Stock (3) | - | 22,661 | - | 22,661 |
| Commodity Inflation Hedging (8) | - | 19,016 | - | 19,016 |
| **Common Stock (3)** | 61,777 | - | - | 61,777 |
| **Fixed income** | | | | |
| Mortgage Backed Securities (2) | - | 1,840 | - | 1,840 |
| Corporate Bond (2) | - | 4,153 | - | 4,153 |
| **Hedge funds** | | | | |
| Distressed Debt (4) | - | 3,002 | - | 3,002 |
| Equity Long/short (4) | - | 9,084 | - | 9,084 |
| Event driven (4) | - | 3,697 | 3,804 | 7,501 |
| Global opportunities (4) | - | 7,901 | - | 7,901 |
| Multi-strategy (4) | - | 24,679 | 3,584 | 28,263 |
| **Mutual funds investment** | | | | |
| Emerging Market Equity Security (3) | 27,275 | - | - | 27,275 |
| Domestic Common Stock (3) | 26,838 | - | - | 26,838 |
| Domestic Fixed Income (2) | 57,563 | - | - | 57,563 |
| International Equity Security (3) | 9,942 | - | - | 9,942 |
| **Limited partnerships (4)** | - | - | 91,102 | 91,102 |
| **Real estate (4)** | - | - | 17,054 | 17,054 |
| **Total endowment investments** | **$ 184,236** | **$ 291,332** | **$ 115,544** | **$ 591,112** |
| **Total investments** | **$ 263,015** | **$ 294,766** | **$ 117,666** | **$ 675,447** |
| Assets not subject to fair value reporting (9) | 1,416 | - | - | 1,416 |
| Liabilities not subject to fair value reporting (9) | (626) | - | - | (626) |
| **Total assets and liabilities measured at fair value** | **$ 264,773** | **$ 353,976** | **$ 122,634** | **$ 741,383** |

Level 3 investments were 17% of total investments.

The following assumptions and estimates were used to determine fair value of each class of financial instruments listed above:

(1) Money market instruments include investments in open ended mutual funds that invest in US treasury securities, US agency bonds, certificates of deposit and corporate bonds. Funds that are quoted daily in active markets are classified as Level 1. Funds that are not quoted daily with prices based on amortized cost are classified as Level 2.

(2) For investments in government securities and corporate bonds, fair value is based first upon quoted market prices for those securities that can be classified as Level 1. For securities where an active market is not available, fair value is determined with reference to similar securities using market prices and broker quotes for similar instruments and are classified as Level 2.

(3) Common stocks are largely valued based on the last sales price for identical securities traded on a primary exchange. These investments are classified as Level 1. Securities that trade infrequently, or that have comparable traded assets – that trade in either active or inactive markets, are priced using available quotes and other market data that are observable as of the reporting date, and are classified as Level 2. Investments in comingled funds with underlying securities in common stock are classified as Level 2 because there is a readily determinable unit price and the units held can be redeemed in less than one month.

(4) Alternative investments include Howard's limited partnership interests, hedge funds, private equity and real estate and commodity funds. Trading in this class of funds is infrequent and, as a result, market values are not readily determinable. The investments in privately held funds are valued based on valuation techniques that take into account each fund's underlying assets and include valuation methods such as market, cost and income approaches. In accordance with ASC 820, *Fair Value Measurement,* which governs the classification of certain investments with the option of Net Asset Value redemption value as Level 2, Howard has classified qualifying investments in Hedge Funds and Commodity Funds as Level 2. These investments can be redeemed on a quarterly basis with a 30 to 90 days redemption notice period. Hedge Funds and Commodity Funds with liquidation terms in excess of 90 days are classified as Level 3. Limited partnerships including private equity and real estate funds and other non-redeemable funds are categorized as Level 3.

These investments cannot be redeemed or withdrawn prior to termination of the partnership. Instead, the distributions are received through liquidation of the underlying assets of the fund. No active market exists for these funds and their valuation is based on unobservable and/or significantly adjusted inputs using the best available information provided by the partnership, including management assumptions. Due diligence procedures performed by management indicate that the values reported are reasonable. These investments are classified as Level 3.

(5) Interest rate swaps are valued using observable and unobservable inputs, such as quotations received from counterparty dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of the observed inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, pre-payment rates, assumptions for non-performance risk, and correlations of such inputs. Certain parts of the interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore, classified as Level 2 within the fair value hierarchy.

(6) Unexpended bond proceeds include investments in government debt security funds. These funds are not quoted daily and are valued at amortized cost. These investments are classified as Level 2.

(7) Deposits held with trustees, including workers' compensation, professional and general liability, health insurance and bond debt service deposits, are comprised primarily of money market instruments, US treasury securities, mortgage-backed securities and corporate bonds. Money market investments are classified as either Level 1 or Level 2 based on whether their prices are quoted daily. Investments in US treasury securities are classified as Level 1 and other fixed income securities are classified as Level 2.

(8) Other assets represent the University's beneficial interest in certain trust assets held by third parties. The fair value of this interest has been measured using the income approach as there is no active principal market trading in this interest. This interest was valued using the quoted market value for the underlying marketable securities of the Trust discounted for expected future cash flows to the University. These interests are classified as Level 3 assets as the reported fair values are based on a combination of observable and unobservable inputs.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

(9) Assets and liabilities not subject to fair value reporting represent transactions that have been entered into but not settled by the reporting date of June 30.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while Howard believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

The following tables present the changes in amounts included in the consolidated statements of financial position for financial instruments classified within Level 3 of the valuation hierarchy defined above.

Changes in Level 3 securities for the period ended June 30, 2016 is as follows:

| Changes in Level 3 for the period ended June 30, 2016 | Private Equity and Venture Capital | Hedge Funds | Real Estate | Other Assets | Total |
|---|---|---|---|---|---|
| Balance July 1, 2015 | $ 83,245 | $ 6,674 | $ 16,612 | $ 5,038 | $ 111,569 |
| Gain and Loss (Realized and unrealized) | 5,527 | (303) | 2,824 | 550 | 8,598 |
| Acquisitions | 8,261 | - | 2,518 | - | 10,779 |
| Sales | (18,353) | (6,285) | (4,841) | - | (29,479) |
| **Balance June 30, 2016** | **$ 78,680** | **$ 86** | **$ 17,113** | **$ 5,588** | **$ 101,467** |
| **Change in unrealized investments held** | **$ 6,306** | **$ (1,325)** | **$ 2,903** | **$ 550** | **$ 8,435** |

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2016. Transfers, when made, are deemed to be made at the end of the fiscal year.

Changes in Level 3 securities for the period ended June 30, 2015 is as follows:

| Changes in Level 3 for the period ended June 30, 2015 | Private Equity and Venture Capital | Hedge Funds | Real Estate | Other Assets | Total |
|---|---|---|---|---|---|
| Balance July 1, 2014 | $ 92,974 | $ 7,388 | $ 17,305 | $ 4,968 | $ 122,635 |
| Gain and Loss (Realized and unrealized) | 5,681 | (714) | 2,544 | 70 | 7,581 |
| Acquisitions | 7,604 | - | 1,210 | - | 8,814 |
| Sales | (23,014) | - | (4,447) | - | (27,461) |
| **Balance June 30, 2015** | **$ 83,245** | **$ 6,674** | **$ 16,612** | **$ 5,038** | **$ 111,569** |
| **Change in unrealized investments held** | **$ (7,690)** | **$ (714)** | **$ 1,175** | **$ 70** | **$ (7,159)** |

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2015. Transfers, when made, are deemed to be made at the end of the fiscal year.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Changes in Level 3 securities for the period ended June 30, 2014 is as follows:

| Changes in Level 3 for the period ended June 30, 2014 | Private Equity and Venture Capital | Hedge Funds | Real Estate | Other Assets | Total |
|---|---|---|---|---|---|
| Balance July 1, 2013 | $ 95,906 | $ 5,931 | $ 8,965 | $ 4,378 | $ 115,180 |
| Gain and Loss (Realized and unrealized) | 16,859 | 1,457 | 2,142 | 590 | 21,048 |
| Acquisitions | 8,113 | - | 7,012 | - | 15,125 |
| Sales | (27,904) | - | (814) | - | (28,718) |
| **Balance June 30, 2014** | **$ 92,974** | **$ 7,388** | **$ 17,305** | **$ 4,968** | **$ 122,635** |
| **Change in unrealized investments held** | **$ 3,212** | **$ 457** | **$ 2,252** | **$ 589** | **$ 6,510** |

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2014.

Net investment income (loss) is summarized as follows for fiscal years ended June 30, 2016, 2015, and 2014:

| Net Investment Income (Loss) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Interest and dividends | $ 7,997 | $ 12,397 | $ 13,810 |
| Net realized gains (losses) | 15,955 | 29,417 | 39,553 |
| Net unrealized gains (losses) | (36,720) | (32,910) | 37,855 |
| Other investment income (expenses) | 71 | 201 | 339 |
| Investment expenses | (3,490) | (3,006) | (4,539) |
| **Net investment income (loss)** | **$ (16,189)** | **$ 6,099** | **$ 87,018** |
| **Current year unrestricted operating return (loss)** | **(1,015)** | **966** | **7,053** |
| Current year non-operating investment return (loss): | | | |
| Unrestricted | (6,984) | 1,826 | 38,834 |
| Restricted | (8,190) | 3,307 | 41,131 |
| **Total current year investment return** | **$ (16,189)** | **$ 6,099** | **$ 87,018** |
| Prior year return designated for current operations: | | | |
| Unrestricted | (6,581) | (6,346) | (6,080) |
| Restricted | (7,693) | (7,372) | (7,016) |
| **Total designated for current operation** | **$ (14,274)** | **$ (13,718)** | **$ (13,096)** |
| **Net non-operating investment return:** | | | |
| Unrestricted | (13,565) | (4,520) | 33,387 |
| Restricted | (15,883) | (4,064) | 33,481 |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

**Liquidity Terms and Unfunded Commitments –** The following tables represent Howard's investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2016, 2015, and 2014. Real estate funds and limited partnerships do not have readily ascertainable market values and may be subject to withdrawal restrictions.

| Investments as of June 30, 2016 | Fair Value | Unfunded Commitments | Redemption/ Withdrawal Frequency | Redemption/ Withdrawal Notice Period |
|---|---|---|---|---|
| Hedge funds | $ 41,776 | $ - | Monthly-Annually | 45-90 days |
| Real estate funds | 17,113 | 1,082 | - | 2-10 years |
| Common/collective trusts | 206,216 | - | Monthly | - |
| Limited partnerships | 78,680 | 31,983 | - | ≤ 10 years |

| Investments as of June 30, 2015 | Fair Value | Unfunded Commitments | Redemption/ Withdrawal Frequency | Redemption/ Withdrawal Notice Period |
|---|---|---|---|---|
| Hedge funds | $ 58,434 | $ - | Monthly-Annually | 45-90 days |
| Real estate funds | 16,612 | 3,059 | - | 2-10 years |
| Common/collective trusts | 200,786 | - | Monthly | - |
| Limited partnerships | 83,245 | 26,841 | - | ≤ 10 years |

| Investments as of June 30, 2014 | Fair Value | Unfunded Commitments | Redemption/ Withdrawal Frequency | Redemption/ Withdrawal Notice Period |
|---|---|---|---|---|
| Hedge funds | $ 55,751 | $ - | Monthly-Annually | 45-90 days |
| Real estate funds | 17,304 | 3,148 | - | 2-10 years |
| Common/collective trusts | 202,086 | - | Monthly | - |
| Limited partnerships | 92,974 | 29,234 | - | ≤ 10 years |

## Note 13 Net Assets

Temporarily restricted net assets consist of the following at June 30:

| Temporarily Restricted Net Assets | 2016 | 2015 | 2014 |
|---|---|---|---|
| Scholarships | $ 48,910 | $ 52,050 | $ 54,511 |
| Professorships | 33,136 | 34,405 | 34,753 |
| Student loans | 1,721 | 1,405 | 1,173 |
| Federal term endowment | 119,145 | 124,883 | 128,648 |
| General operations and other | 33,441 | 38,176 | 37,698 |
| **Total** | **$ 236,353** | **$ 250,919** | **$ 256,783** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The Federal term endowment restriction is for 20 years for each contribution beginning in 1985. Howard transfers the amount of the original contribution plus accumulated investment returns to unrestricted net assets at the end of each 20 year period. For fiscal years ended June 30, 2016, 2015, and 2014, the transfer amounts were $7,701, $10,146 and $10,612, respectively.

Permanently restricted net assets are held in perpetuity and the income there from is only expendable for the noted purposes at June 30:

| **Permanently Restricted Net Assets** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Scholarships | $ 57,296 | $ 55,122 | $ 54,633 |
| Professorships | 24,713 | 24,431 | 24,151 |
| Student loans | 34,548 | 36,943 | 36,321 |
| General operations and other | 11,691 | 11,610 | 10,838 |
| **Total** | **$ 128,249** | **$ 128,106** | **$ 125,943** |

Temporarily restricted net assets that were released from donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors as noted for fiscal years ended June 30, 2016, 2015, and 2014 are as follows:

| **Net Assets Released from Restrictions** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Federal term | $ 7,701 | $ 10,146 | $ 10,612 |
| Restrictions released based on purpose: | | | |
| Scholarships and fellowships | 3,242 | 5,032 | 3,671 |
| Professorships | 711 | 463 | 626 |
| Student loans | 57 | 128 | 127 |
| General operations and other | 2,584 | 1,943 | 2,024 |
| **Total** | **$ 14,296** | **$ 17,712** | **$ 17,060** |

## Note 14 Endowment Fund

Howard's endowment includes approximately 800 individual accounts established to fund scholarships, professorships, student loans, general operations and other purposes. Effective July 1, 2008, Howard adopted Financial Accounting Standards Board Staff Position – Endowments of Not-for-profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds. Howard is subject to the District of Columbia Uniform Prudent Management of Institutional Funds Act of 2008 (DC UPMIFA).

**Interpretation of Relevant Law**

***Net Asset Classification -*** The Board of Trustees of Howard has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift, as of the gift dates of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, Howard classifies as permanently restricted net assets:

1. The original value of gifts with permanent donor-directed use restrictions.
2. The value of accumulations in accordance with the applicable donor gift instrument at the time the accumulation occurs.

Any portion of the donor-restricted gift that is not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

***Spending -*** In accordance with UPMIFA, Howard considers the following factors in making a determination to spend or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Howard and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of Howard
7. The investment policies of Howard

***Management and Investment -*** In accordance with UPMIFA, Howard considers the following factors in making investment, as well as other management decisions, regarding donor-restricted endowment funds:

1. General economic conditions
2. The possible effect of inflation and deflation
3. The expected tax consequences, if any
4. The role of an investment/action in context of the entire portfolio
5. The expected total income and appreciation
6. Other University resources
7. The needs to preserve capital and make distributions
8. An asset’s special relationship or value to the University’s charitable purpose.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

As of fiscal years ended June 30, 2016, 2015, and 2014 total endowment funds classified as permanently restricted and temporarily restricted net assets were:

| Restricted Endowment | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Permanently Restricted Net Assets** | | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA: | **$ 88,658** | **$ 81,904** | **$ 80,975** |
| **Temporarily Restricted Net Assets** | | | |
| Time restricted funds | 134,335 | 140,868 | 145,272 |
| The portion of perpetual endowment funds subject to a time restriction under DC UPMIFA: | | | |
| Without purpose restrictions | 3,578 | 4,204 | 4,707 |
| With purpose restrictions | 49,523 | 58,106 | 64,463 |
| **Total endowment funds classified as temporarily restricted net assets** | **$ 187,436** | **$ 203,178** | **$ 214,442** |

The change in value and the composition of amounts classified as endowment as of June 30, 2016 is as follows:

| Endowment Change in Value For period ended June 30, 2016 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Endowment net assets, beginning of year** | **$ 308,982** | **$ 203,178** | **$ 81,904** | **$ 594,064** |
| Investment return: | | | | |
| Investment income | 3,200 | 3,719 | 175 | 7,094 |
| Net depreciation (realized and unrealized) | (10,594) | (9,783) | (38) | (20,415) |
| **Total investment return** | **$ (7,394)** | **$ (6,064)** | **$ 137** | **$ (13,321)** |
| Contributions | 373 | 3,458 | 6,727 | 10,558 |
| Appropriation of endowment assets for operations | (7,775) | (6,389) | (110) | (14,274) |
| Other changes: | | | | |
| Match release | 7,701 | (7,701) | - | - |
| Transfer and other changes | 3,453 | 954 | - | 4,407 |
| **Endowment net assets, end of year** | **$ 305,340** | **$ 187,436** | **$ 88,658** | **$ 581,434** |
| Donor-restricted endowment funds | (7,137) | 187,436 | 88,658 | 268,957 |
| Board-designated endowment funds | 312,477 | - | - | 312,477 |
| **Endowment net assets, end of year** | **$ 305,340** | **$ 187,436** | **$ 88,658** | **$ 581,434** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The change in value and the composition of amounts classified as endowment as of June 30, 2015 is as follows:

| Endowment Change in Value<br>For period ended June 30, 2015 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Endowment net assets, beginning of year** | **$ 299,890** | **$ 214,442** | **$ 80,975** | **$ 595,307** |
| Investment return: | | | | |
| Investment income | 4,821 | 5,803 | 239 | 10,863 |
| Net depreciation (realized and unrealized) | (2,068) | (3,780) | (153) | (6,001) |
| **Total investment return** | **$ 2,753** | **$ 2,023** | **$ 86** | **$ 4,862** |
| Contributions | 182 | 3,426 | 827 | 4,435 |
| Appropriation of endowment assets for operations | (6,994) | (6,615) | (108) | (13,717) |
| Other changes: | | | | |
| Match release | 10,146 | (10,146) | - | - |
| Transfer and other changes | 3,005 | 48 | 124 | 3,177 |
| **Endowment net assets, end of year** | **$ 308,982** | **$ 203,178** | **$ 81,904** | **$ 594,064** |
| Donor-restricted endowment funds | (4,181) | 203,178 | 81,904 | 280,901 |
| Board-designated endowment funds | 313,163 | - | - | 313,163 |
| **Endowment net assets, end of year** | **$ 308,982** | **$ 203,178** | **$ 81,904** | **$ 594,064** |

The change in value and the composition of amounts classified as endowment as of June 30, 2014 is as follows:

| Endowment Change in Value<br>For period ended June 30, 2014 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Endowment net assets, beginning of year** | **$ 250,937** | **$ 187,817** | **$ 78,771** | **$ 517,525** |
| Investment return: | | | | |
| Investment income | 5,934 | 7,046 | 163 | 13,143 |
| Net depreciation (realized and unrealized) | 35,959 | 35,617 | 525 | 72,101 |
| **Total investment return** | **$ 41,893** | **$ 42,663** | **$ 688** | **$ 85,244** |
| Contributions | 330 | 3,475 | 1,199 | 5,004 |
| Appropriation of endowment assets for operations | (3,131) | (9,797) | (168) | (13,096) |
| Other changes: | | | | |
| Match release | 9,820 | (9,820) | - | - |
| Transfer and other changes | 41 | 104 | 485 | 630 |
| **Endowment net assets, end of year** | **$ 299,890** | **$ 214,442** | **$ 80,975** | **$ 595,307** |
| Donor-restricted endowment funds | (2,666) | 214,442 | 80,975 | 292,751 |
| Board-designated endowment funds | 302,556 | - | - | 302,556 |
| **Endowment net assets, end of year** | **$ 299,890** | **$ 214,442** | **$ 80,975** | **$ 595,307** |

Howard’s endowment net assets include receivables related to the federal term endowment, which have not been received and therefore not included as part of endowment investments. For fiscal years ended June 30, 2016, 2015, and 2014 receivables of $4,302, $3,405 and $3,405, respectively were recorded, and represent the difference between endowment investments reflected on consolidated statements of financial position and endowment net assets reported above.

***Funds with Deficiencies -*** From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Trustees require Howard to retain as a fund of perpetual duration. Deficiencies of this nature, so called "underwater accounts", are reported in unrestricted net assets and totaled $7,137, $4,181 and $2,666 as of fiscal years ended June 30, 2016, 2015, and 2014, respectively. Howard has adopted a policy allowing spending in certain situations from underwater, donor-restricted endowment funds, absent overriding provisions in donor agreements. Howard's investment and spending policy is intended to conform with the UPMIFA which allows spending in underwater endowments, in support of an endowment's purpose.

***Return Objectives and Risk Parameters -*** Howard has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to minimize the risk associated with obtaining such income streams. Endowment assets include those that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated endowment funds. Under these policies the endowment assets are invested through a well-diversified investment program designed to exceed the risk-adjusted performance of the market benchmark representative of each asset class over rolling five to seven year periods. Howard's objective, over time, is to obtain an average total real rate of return (inflation adjusted) that exceeds its targeted distribution amount over rolling five to seven year periods. Howard's investment strategy aims for a low to moderate level of investment risk. Actual returns in any given year may significantly vary from this objective.

***Strategies Employed for Achieving Objectives -*** To satisfy its long-term rate-of-return objectives, Howard relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and yield (interest and dividends). Howard targets a diversified asset allocation which places greater emphasis on global public equity-based investments complimented by private markets, real estate and fixed income strategies to achieve its long-term return objectives within prudent risk constraints. The endowment's long-term target asset allocation is approved by the Investment Committee of the Board of Trustees.

***Spending Policy and How the Investment Objectives Relate to Spending Policy -*** Howard's spending policy allows for distribution each year of up to 5 percent of its endowment fund's market value, excluding Federal term and Islamic Funds, based upon a three-year moving average with the most recent year removed. In establishing this policy, Howard considered the long-term expected return on its endowment consistent with its general goal of facilitating the ability of endowments (specifically permanent and time specific endowments) to best fulfill the purposes for which they were designed.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 15 Estimated Third-Party Settlements

Certain services rendered by the Hospital are reimbursed by third-party payors at cost, based upon cost reports filed after year-end. Contractual allowances are recorded based upon preliminary estimates of reimbursable costs.

Net patient service revenue recorded under cost reimbursement agreements for the current and prior years is subject to audit and retroactive adjustments by significant third-party payors for the following years:

Medicare 2015-2016
Medicaid 2011-2016

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase (decrease) in net patient service revenues of approximately $7,961, $8,764 and ($8,879) for fiscal years ended June 30, 2016, 2015, and 2014, respectively.

| **Third-party settlement revenue** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Medicare appeals | $ - | $ - | $ (9,472) |
| Medicare pass-through | 9,990 | 8,644 | 10,907 |
| Disproportionate Share Hospital | 25,990 | 43,262 | 37,406 |
| Graduate Medical Education | 6,429 | 6,973 | 5,338 |
| Other | 4,228 | (163) | 5,773 |
| **Total third-party settlement revenue** | **$ 46,637** | **$ 58,716** | **$ 49,952** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 16 Long-Lived Assets

| Long-Lived Assets | 2016 | 2015 | 2014 |
|---|---|---|---|
| Land and land improvements | $ 27,911 | $ 27,911 | $ 27,911 |
| Buildings and building improvements | 871,570 | 847,079 | 836,112 |
| Property held for expansion | 54,819 | 54,819 | 54,819 |
| Property held under leases | 28,236 | 28,236 | 28,236 |
| Furniture and equipment | 321,277 | 292,669 | 292,751 |
| Library books | 91,376 | 91,075 | 91,036 |
| Right to use assets - operating | 3,958 | 4,886 | 5,330 |
| Right to use assets - financing | 68,871 | 76,589 | 76,145 |
| Software | 114,827 | 114,353 | 112,941 |
| Software in progress | 6,169 | 6,169 | 5,833 |
| Construction in progress | 15,186 | 77,798 | 50,849 |
| Long-lived assets, gross | 1,604,200 | 1,621,584 | 1,581,963 |
| Accumulated depreciation and amortization | (1,027,747) | (1,001,841) | (956,361) |
| **Long-lived assets, net** | **$ 576,453** | **$ 619,743** | **$ 625,602** |

For the fiscal year ended June 30, 2016 there were $14,662 in additions and $27,339 in sales, disposals and retirements. Right to use assets – operating and financing are not available by Howard for use as collateral.

Depreciation expense for the years ended June 30, 2016, 2015, and 2014 were $44,883, $51,596 and $55,900, respectively. For fiscal years ended June 30, 2016, 2015, and 2014, respectively, net interest costs of $158, $198 and $592 were incurred during construction and capitalized as part of the cost of capital projects.

Long-lived assets includes property held for expansion, consisting of land and buildings acquired for future use in carrying out educational, research and other activities in line with the overall mission of Howard. Depreciation for buildings commences when property is converted to use.

## Note 17 Leases

### *Lease Obligations*

Howard University has elected to adopt the new Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)* for leases issued by the Financial Accounting Standards Board (FASB). The new standard defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (the underlying asset) for a period of time in exchange for consideration.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Under the new standard, Howard has recognized lease assets and liabilities, with certain exceptions, on the statement s of financial position. Both financing leases and operating leases create an asset (right-of-use or ROU asset) and a liability measured at the present value of the lease payment, that are reflected on our statement of financial position.

Howard University assessed whether any expired or existing contracts are or contain leases. The lease classification was also assessed to determine whether there were any expired or existing leases classified as operating leases. All existing leases that were classified as capital leases will now be classified as finance leases.

Howard is obligated under financing leases for office and medical equipment that extend through 2020, and the chiller plant that extends through 2031 in the amounts of $25,045, $33,488 and $44,125, respectively at fiscal years ended June 30, 2016, 2015, and 2014. The assets are amortized over their estimated useful lives. Accumulated amortization related to the leased assets is $51,066, $55,068 and $46,764, respectively.

Howard has several non-cancelable operating leases for office space, master antenna, fleet and equipment that expire by 2019. Future rental lease obligation payments for the master antenna and fleet for fiscal years ended June 20, 2017, 2018 and 2019 will be $566, $522, $213, respectively.

Rental payments are recognized on a straight-line basis and are allocated in the statements of activities by function. Rent expense related to building space and equipment for fiscal years ended June 30, 2016, 2015, and 2014 was $8,446, $6,012, and $5,590, respectively.

At June 30, 2016, the minimum future lease principal payments under financing leases and non-cancelable operating leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follow:

| **Lease Obligations** | **Financing Leases** | **Operating Leases** |
|---|---|---|
| Future principal and interest years ending June 30 | | |
| 2017 | $ 6,570 | $ 566 |
| 2018 | 4,107 | 522 |
| 2019 | 2,913 | 212 |
| 2020 | 2,204 | - |
| 2021 | 2,216 | - |
| 2022 and thereafter | 21,764 | - |
| Obligation, gross | 39,774 | 1,300 |
| Amounts representing interest rates from 2% to 10% | (14,729) | - |
| **Total Lease Obligations, net** | **$ 25,045** | **$ 1,300** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

At June 30, 2016, the minimum lease interest payments under finance leases and non-cancelable operating leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follow:

| **Lease obligations - interest** | **Financing Leases** |
|---|---|
| Future interest payments years ending June 30 | |
| 2017 | $ 1,804 |
| 2018 | 1,601 |
| 2019 | 1,461 |
| 2020 | 1,378 |
| 2021 | 1,306 |
| 2022 and thereafter | 7,179 |
| **Total lease obligation interest** | **$ 14,729** |

The right to use operating and finance lease assets are reported on the Statement of Financial Position as a component of Property Plant and Equipment, and are disclosed in Footnote 16.

At June 30, 2016, the amortization of finance right to use lease assets for fiscal years ended June 30, 2016, 2015, and 2014 was, $3,958, $4,886 and $5,330, respectively. The minimum future lease payments for right to use financing assets for years ending June 30, are as follow:

| **Lease assets** | **Right to Use Financing Assets** |
|---|---|
| 2017 | $ 970 |
| 2018 | 109 |
| 2019 | - |
| 2020 | - |
| 2021 | - |
| 2022 and thereafter | - |
| **Total minimum lease income receipts** | **$ 1,079** |

***Lease Income***

Howard University assessed the Meridian Hill transaction to be a lease and determined the lease was of 2 separate components, namely building and land. Howard University has engaged an independent 3rd party company to value land and building respectively. The Meridian Hill lease is treated separately from other leases. Howard University has elected to account for each separate lease component separately from the non-lease components of the contract. Howard University has classified each separate lease component at the lease commencement date. For the modification of lease contracts, Howard University has accounted for it as a separate contract when required to do so.

Howard University determined that land is a part of the underlying assets in the Meridian Hill lease transaction. Therefore, Howard University has appropriately accounted for the right to use land as a separate lease component unless the accounting effect of doing so would be insignificant (for instance, separating the land element would have no effect on lease classification of any lease component or the amount recognized for the land lease component would be insignificant).

Under ASC 842-30-50-3, lessors are required to classify leases. Operating leases are to be recognized by lessors as lease receivables. Such leases results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's statement of financial position and is continuously depreciated.

Howard has several operating leases for retail and commercial space for which rent payments are fixed at the time of lease commencement. The Basis, terms, conditions and extensions for each leased property is specified in the lease agreement. Lease payments are governed by the lease agreement and are fixed. Some lessors either have the option of re-negotiating a new agreement upon the termination of the lease or extending the terms in the current lease for another couple of years or go on a month-to-month lease. Termination terms are explicitly stated in each lease agreements as both the Lessor and Lessee can exercise rights to terminate agreement.

Howard's leased properties are comprised of (1). Wonder Plaza Building, (2) Parking Spaces, (3) Rooftops Towers, and (4) Ground Lease (Provident and Meridian Hill). Other standalone buildings owned by Howard are leased to private corporations such as (5) Public Charter School, (6) Car Rental Company, and (7) Pharmacy. Howard leases space in the Hospital to a large private pharmacy. Howard does not have any standing agreements for lessee to purchase the underlying asset being leased at the end of the lease term.

Howard University receives monthly income under these lease agreements, which have termination dates through 2022 and thereafter. The total lease income received for fiscal years ended June 30, 2016, 2015, and 2014 was $1,745, $1,508 and $1,505, respectively.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The future minimum lease income for years ending at June 30 is as follows:

| Future minimum lease income | June 30, 2016 |
|---|---|
| 2017 | 1,895 |
| 2018 | 1,605 |
| 2019 | 1,640 |
| 2020 | 1,641 |
| 2021 | 1,542 |
| 2022 and thereafter | 6,168 |
| **Total minimum lease income receipts** | **$ 14,491** |

## Note 18 Bonds and Notes Payable

(a) ***Bonds Payable***

Howard is obligated with respect to the following bond issues at June 30:

| Bonds Payable | 2016 | 2015 | 2014 |
|---|---|---|---|
| ***District of Columbia issues:*** | | | |
| 2010 Revenue bonds, 5.05% Serial due 2010 through 2025 | $ 7,477 | $ 8,048 | $ 8,650 |
| 2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041 | 225,250 | 225,250 | 225,250 |
| 2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035 | 63,665 | 65,065 | 65,065 |
| 2016 Revenue bonds Serial due 2015 through 2031 | 160,000 | - | - |
| **Total bonds payable, gross** | **$ 456,392** | **$ 298,363** | **$ 298,965** |
| Unamortized bond premium (discount) | (5,316) | (5,510) | (5,771) |
| **Total bonds payable, net** | **$ 451,076** | **$ 292,853** | **$ 293,194** |

(1) **2010 Revenue Bonds**

In August 2010, Howard issued $10,400 of Series 2010 bonds. The bonds bear interest at 5.05% repayable from 2010 to 2025. The proceeds were used to retire an expiring equipment note and to fund energy related projects.

(2) **2011 Revenue Bonds**

In April 2011, Howard issued $225,250 of tax exempt revenue bonds (Series 2011A) and $65,065 of taxable revenue bonds (Series 2011B) to refund the Series 1998 and Series 2006 bonds and to finance new capital improvements. The interest rate on the tax exempt bonds range from 5.25% to 6.50% and the bonds are repayable from 2020 to 2041. The taxable bonds bear interest between 4.31% and 7.63% and are repayable from 2015 to 2035. The average coupon is 6.57%. The 2011 bonds require Howard to maintain a debt service fund of $12,634. At fiscal year ended June 30, 2016 the fund balance was $12,848.

The Series 2011A Bonds maturing on or after October 1, 2021 are subject to optional redemption by the District of Columbia, at the written direction of Howard, in its sole discretion, on or after April 1, 2021 in whole or in part at any time, at a redemption price equal to the principal amount of the Series 2011A Bonds being redeemed, plus accrued interest, if any, to the redemption date.

The Series 2011B Bonds are subject to optional redemption prior to maturity in whole or in part on any Business Day at the Make-Whole Redemption Price at the direction of Howard.

2011 Bond proceeds of $19,782 were used to create a deposit for capitalized interest. The remaining balance of this fund is $0 at June 30, 2016.

On June 5, 2015, Moody's Investors Service placed under review a downgrade of Howard's Series 2011A and 2011B bonds to Ba2 with a negative outlook from Baa3. The downgrade to Ba2 reflects the cumulative effect on ongoing losses at both Howard University Hospital and Howard University combined with expected continued pressure on revenue and liquidity management. On July 30, 2015, Moody's Investors Service confirmed the June 5, 2015 review for downgrade of Howard's Series 2011A and 2011B bonds to Ba2 with a negative outlook from Baa3.

(3) **2016 Revenue Bonds**

In June 2016, Howard issued $162,420 of taxable private placement bonds ("the 2016 Revenue Bonds"). The Bonds will bear interest at a weekly rate with a maximum bond rate of 12%. The 2016 Revenue Bonds are repayable by August 2031.

(4) **Fair Value of Bonds**

Currently the estimated fair value of Howard's bonds is determined based on quoted market prices. At fiscal years ended June 30, 2016, 2015, and 2014, the estimated fair value was approximately $480,939, $316,072 and $330,896, respectively. Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of judgment. Howard is not required to settle its debt obligations at fair value and settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding tax-exempt debt.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

(b) ***Notes Payable***

Howard is obligated with respect to the following notes payable at June 30:

| Notes Payable | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Bank of America Property Loan** | | | |
| Due monthly, through June 1, 2017, variable interest rate of Libor plus 3.50% | $ - | $ 3,971 | $ 5,447 |
| **Multi-bank Agreement** | | | |
| Due July 24, 2016, variable interest rate at daily LIBOR plus 2.5% | - | 95,000 | 65,000 |
| **Total Notes Payable** | **$ -** | **$ 98,971** | **$ 70,447** |

In June 2016, Howard entered into a $75,000 JP Morgan Chase Revolving Credit Agreement. There is no outstanding balance at June 30, 2016. The initial agreement terminates in June 2019. Howard is obligated to pay a quarterly non-refundable commitment fee. The Commitment fee shall be payable upon availability of funds commencing on October 1, 2016.

In June 2014, Howard replaced its $135,000 Multi-bank Credit Agreement with a $100,000 Multi-bank Credit Agreement that extended through July 2016. The outstanding balance of $95,000 was paid with proceeds from the 2016 Revenue Bonds in June 2016. Outstanding borrowings under these agreements at fiscal years ended June 30, 2016, 2015, and 2014 were $0, $95,000 and $65,000, respectively.

In February 2014, Howard amended its financing agreement for the Bank of America Property Loan for the unpaid principal balance of $5,447, extending the final maturity date from May 31, 2014 to June 1, 2017. In June 2016, the outstanding balance of $3,971 was paid with proceeds from the 2016 Revenue Bonds.

(c) ***Compliance with Contractual Covenants***

In May 2011, Howard's debt covenants were amended in conjunction with the 2011 Bond issuance and Multi-bank Credit Agreement execution. In June 2014, the debt covenants were amended for the re-negotiated Multi-bank Credit Agreement.

In 2015, Howard, as was required by the terms of the Multi-bank Credit Agreement, granted lenders a security interest in collateral in the form of cash and securities delivered to their collateral agent. Howard would pledge additional collateral when the collateral value was less than the minimum collateral amount. The collateral agent was not allowed to re-pledge or sell the collateral securities. At June 30, 2015, the carrying value of the pledged securities was $133,903 and was reported in endowment investments. There were no pledged securities at fiscal years ended June 30, 2016 or 2014.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

At June 30, 2016, 2015, and 2014, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 Revenue Bonds and the Property Loan. At June 30, 2016, 2015, and 2014, Howard was compliant with the Liquidity Ratio measurement for the Multi-bank Credit Agreement. The Debt Service Coverage Ratio measurement requirement was removed for fiscal year 2015 for the Multi-bank Credit Agreement. Howard was not in compliance with the Debt Service Coverage Ratio for the Multi-bank Credit Agreement at June 30, 2014.

The 2011 Bond, 2016 Revenue Bonds and Revolving Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2016.

| Covenant | Instrument | Measurement Date | Criteria |
|---|---|---|---|
| Debt Service Coverage Ratio | 2011 Revenue Bonds | June 30 each year | 1.10:1.00 |
| Debt Service Coverage Ratio | 2016 Revenue Bonds | June 30 each year | 1.10:1.00 |
| Liquidity Ratio | Revolving Credit Agreement | Quarterly | 0.25:1.00 |

(d) ***Scheduled Bond and Note Repayments***

The scheduled principal repayments of bonds and notes payable, including sinking fund requirements, are as follows:

| Aggregate Annual Maturities | 2016 | 2015 | 2014 |
|---|---|---|---|
| 2015 | NA | NA | $ 67,352 |
| 2016 | NA | $ 98,813 | 3,813 |
| 2017 | $ 2,546 | 4,700 | 4,426 |
| 2018 | 10,966 | 2,771 | 2,771 |
| 2019 | 12,079 | 3,480 | 3,480 |
| 2020 | 14,148 | 5,135 | 5,135 |
| 2021 | 14,957 | 3,892 | 3,892 |
| 2022 and thereafter | 401,696 | 278,543 | 278,543 |
| Subtotal | 456,392 | 397,334 | 369,412 |
| Bond premiums/(discounts) | (5,316) | (5,510) | (5,771) |
| **Total** | **$ 451,076** | **$ 391,824** | **$ 363,641** |

## Note 19 Retirement Plans

**Employee Retirement Plan -** Howard had a noncontributory defined benefit pension plan (the Plan) that was available to substantially all full-time employees. In accordance with government funding regulations, Howard's policy is to make annual contributions to the Plan at least equal to the minimum contribution. Based upon years of service and other factors, the Plan's benefit formula provides that eligible retirees receive a percentage of their final annual pay, based upon years of service and other factors. Plan assets consist primarily of common equity securities, U.S. Treasury securities, corporate bonds, and private investment funds. Effective July 1, 2010, the Plan no longer accrues benefits and is closed to new participants.

**Post-retirement Plan -** Howard provides post-retirement medical benefits and life insurance to employees who, at the time they retire, meet specified eligibility and service requirements. Howard pays a portion of the cost of such benefits depending on various factors, including employment start date, age, years of service and either the date of actual retirement or the retirement eligibility date of the participant. The post-retirement benefit plan is unfunded and has no plan assets.

Effective April 1, 2013 Howard eliminated the subsidy for post-65 medical and dental coverage for Class II and Class IV participants. This plan change is considered a significant event, and triggered a plan amendment as of the re-measurement date. The action resulted in (1) revised expense for the final quarter of the fiscal year ended June 30, 2013, which included amortization of the new prior service credit generated from the negative plan amendment and (2) reduction to the Accumulated Pension Benefit Obligation of $113,000.

During FY 2016 there was a curtailment of the Hospital's plan due to a nearly 20% decrease in active participants in FY 2015. This reduced the Accumulated Benefit Obligation by $2,600.

**Supplemental Retirement Plan** – Howard also has a supplemental retirement plan available to certain retired executives. The plan is noncontributory, unfunded and has a June 30 measurement date. The projected benefit obligation is $1,711, $1,704 and $1,710 at fiscal years ended June 30, 2016, 2015, and 2014, respectively. The amounts not yet reflected in operating expenses, but included in unrestricted net assets pertain to accumulated losses of $1,106, $1,024 and $943 at June 30, 2016, 2015, and 2014, respectively. The actuarial cost method and the assumption on discount rate used to determine the benefit obligation and net periodic cost in the actuarial valuation for the year ended June 30, 2016 are consistent with the method and assumptions used for the defined benefit pension plan.

**Savings Plan** – Howard supplements its pension plan by offering employees a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible employees received a contribution of 6% of base salary and are also permitted to contribute up to 15% of their base pay to the plan. The administration of the plan is provided by three financial administrators: Teachers Insurance and Annuity Association/College Retirement Equities Fund, American International Group – Variable Annuity Life Insurance Company, and Lincoln Financial. Effective July 1, 2011 Lincoln Financial has been replaced as a financial administrator by Voya Financial (formally ING Financial Advisors). These administered plans provide additional retirement benefits including the purchase of annuity contracts for eligible employees. Total costs recognized in the consolidated statements of activities were $20,494, $22,502 and $22,989 for fiscal years ended June 30, 2016, 2015, and 2014, respectively. The fair value of plan assets for the savings plan for fiscal years ended June 30, 2016, 2015, and 2014 were $914,319, $929,126 and $921,876, respectively. These investments are held by Howard on behalf of its employees and excluded from the consolidated statements of financial position.

Effective July 1, 2010, the Savings Plan was modified such that Howard will automatically, upon hire, contribute 6% of any eligible employee’s base pay, regardless of tenure or election into the Savings Plan. Howard will contribute a matching contribution of up to 2% of employee elected self contributions.

Effective March 1, 2013 employer base (6%) and matching (2%) contributions were suspended. Employees were still able to contribute to the Savings Plan. This suspension was ended effective July 1, 2013.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Howard recognizes a plan's overfunded or underfunded status as an asset or liability, with an offsetting adjustment to unrestricted net assets. The reconciliation of the Plan's funded status to amounts recognized in the consolidated financial statements at fiscal years ended June 30, 2016, 2015, and 2014 are as follows:

| | Pension | | | Medical and Life Insurance | | | Savings Plan and Supplemental | | |
|---|---|---|---|---|---|---|---|---|---|
| **Retirement Benefits** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** |
| **Change in benefit obligation** | | | | | | | | | |
| Projected benefit obligation at beginning of year | $ 669,090 | $ 659,234 | $ 616,455 | $ 63,438 | $ 71,302 | $ 67,852 | $ 1,704 | $ 1,710 | $ 1,737 |
| Service Cost | - | - | - | 479 | 507 | 459 | - | - | - |
| Interest Cost | 28,291 | 27,147 | 28,760 | 2,728 | 2,927 | 3,198 | 69 | 67 | 78 |
| Actuarial (gain)/loss | 40,972 | 17,285 | 43,938 | 5,279 | (7,051) | 4,678 | 182 | 171 | 139 |
| Benefits paid | (36,474) | (34,576) | (32,619) | (10,833) | (11,970) | (10,270) | (244) | (244) | (244) |
| Special termination benefits | - | - | - | - | - | - | - | - | - |
| Medicare Part D subsidy | - | - | - | 18 | 820 | 828 | - | - | - |
| Employee contributions | - | - | - | 7,281 | 6,903 | 4,557 | - | - | - |
| Prior service amendment | - | - | - | - | - | - | - | - | - |
| Plan curtailments | | | | (782) | | | | | |
| Plan amendments | - | - | 2,700 | - | - | - | - | - | - |
| **Projected benefit obligation at end of period** | **$ 701,879** | **$ 669,090** | **$ 659,234** | **$ 67,608** | **$ 63,438** | **$ 71,302** | **$ 1,711** | **$ 1,704** | **$ 1,710** |
| ***Change in plan assets:*** | | | | | | | | | |
| Fair value of plan assets at beginning of year | 538,962 | 552,605 | 489,000 | - | - | - | - | - | - |
| Actual return on plan assets | 24,393 | 4,632 | 85,230 | - | - | - | - | - | - |
| Employer contributions | 8,320 | 16,301 | 10,994 | 3,534 | 4,247 | 4,885 | 20,494 | 22,502 | 22,722 |
| Employee contributions | - | - | - | 7,281 | 6,903 | 4,557 | - | - | - |
| Medicare Part D subsidy | - | - | - | 18 | 820 | 828 | - | - | - |
| Benefits paid | (36,474) | (34,576) | (32,619) | (10,833) | (11,970) | (10,270) | (244) | (244) | (244) |
| **Fair value of plan assets at end of period** | **$ 535,201** | **$ 538,962** | **$ 552,605** | **$ -** | **$ -** | **$ -** | **NA** | **NA** | **NA** |
| **Total** | **$ (166,678)** | **$ (130,128)** | **$ (106,629)** | **$ (67,608)** | **$ (63,438)** | **$ (71,302)** | **NA** | **NA** | **NA** |

NA = Not Applicable

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at fiscal years ended June 30, 2016, 2015, and 2014:

| | Pension | | | Medical and Life Insurance | | | Savings Plan and Supplemental | | |
|---|---|---|---|---|---|---|---|---|---|
| **Retirement Benefits** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** |
| **Recognized in Statement of Activities** | | | | | | | | | |
| Amortization of transition obligation | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Amortization of prior service cost | 100 | 100 | - | - | - | - | - | - | - |
| Amortization of net actuarial loss | 8,102 | 8,459 | 7,972 | 626 | 802 | 621 | 99 | 91 | 79 |
| **Total amortization** | **$ 8,202** | **$ 8,559** | **$ 7,972** | **$ 626** | **$ 802** | **$ 621** | **$ 99** | **$ 91** | **$ 79** |
| Service Cost | - | - | - | 479 | 507 | 459 | 20,494 | 22,502 | 22,478 |
| Interest Cost | 28,291 | 27,147 | 28,760 | 2,728 | 2,927 | 3,198 | 69 | 67 | 78 |
| Curtailment recognition of prior service credit | - | - | - | (15,342) | (12,785) | (12,785) | - | - | - |
| Expected return on plan assets | (32,337) | (27,834) | (27,287) | - | - | - | - | - | - |
| **Recognized in operating expenses** | **$ 4,156** | **$ 7,872** | **$ 9,445** | **$ (11,509)** | **$ (8,549)** | **$ (8,507)** | **$ 20,662** | **$ 22,660** | **$ 22,635** |
| Amortization of transition obligation | - | - | - | - | - | - | - | - | - |
| Amortization of prior service cost | (100) | (100) | - | - | - | - | - | - | - |
| Amortization of net actuarial loss | (8,102) | (8,459) | (7,972) | (626) | (802) | (621) | (99) | (91) | (79) |
| **Total amortization** | **$ (8,202)** | **$ (8,559)** | **$ (7,972)** | **$ (626)** | **$ (802)** | **$ (621)** | **$ (99)** | **$ (91)** | **$ (79)** |
| Net actuarial (gain) loss during the year | 48,914 | 40,532 | (14,011) | 4,528 | (6,453) | 2,839 | 182 | 171 | 139 |
| New prior service cost arising during period | - | - | 2,700 | 15,342 | 12,785 | 12,785 | - | - | - |
| **Total recognized in other changes in unrestricted net assets** | **$ 40,712** | **$ 31,973** | **$ (19,283)** | **$ 19,244** | **$ 5,530** | **$ 15,003** | **$ 83** | **$ 80** | **$ 60** |
| **Total recognized in Statements of Activities** | **$ 44,868** | **$ 39,845** | **$ (9,838)** | **$ 7,735** | **$ (3,019)** | **$ 6,496** | **$ 20,745** | **$ 22,740** | **$ 22,695** |

Amounts included in unrestricted net assets at fiscal years ended June 30, 2016, 2015, and 2014:

| | Pension | | | Medical and Life Insurance | | |
|---|---|---|---|---|---|---|
| **Retirement Benefits** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** |
| Net actuarial loss | $ (300,743) | $ (259,931) | $ (227,858) | $ (10,322) | $ (6,420) | $ (13,675) |
| Prior service cost | (2,500) | (2,600) | (2,700) | 29,800 | 45,142 | 57,927 |
| **Total** | **$ (303,243)** | **$ (262,531)** | **$ (230,558)** | **$ 19,478** | **$ 38,722** | **$ 44,252** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The estimated net actuarial loss, prior service cost, and transition obligation for the pension and post-retirement plans that were accounted for as a part of net periodic benefit cost over the next fiscal year are $10,160, $100 and $0, respectively.

Contributions to the pension plan of $8,320, $16,301 and $10,994, were made in fiscal years ended June 30, 2016, 2015, and 2014, respectively. Contributions of $0 are expected to be paid to the pension plan during the fiscal year ended June 30, 2017.

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2016, 2015, and 2014 were as follows:

| | Pension Benefits | | | Post-retirement Benefits | | |
|---|---|---|---|---|---|---|
| **Actuarial Assumptions** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** |
| Discount rate | 3.88% | 4.36% | 4.25% | 3.96% | 4.45% | 4.29% |
| Expected return on plan assets | 7.00% | 7.00% | 7.00% | 0.00% | 0.00% | 0.00% |
| Rate of compensation increase | - | - | - | 3.50% | 3.50% | 3.50% |

The weighted average assumptions used to determine net periodic cost in the actuarial valuations for fiscal years ended June 30, 2016, 2015, and 2014 were as follows:

| | Pension Benefits | | | Post-retirement Benefits | | |
|---|---|---|---|---|---|---|
| **Actuarial Assumptions** | **2016** | **2015** | **2014** | **2016** | **2015** | **2014** |
| Discount rate | 4.36% | 4.25% | 4.82% | 4.45% | 4.29% | 4.89% |
| Expected return on plan assets | 7.00% | 7.00% | 7.00% | 0.00% | 0.00% | 0.00% |
| Rate of compensation increase | | | | | | |
| To age 35 | - | - | - | 3.50% | 3.50% | 3.50% |
| Thereafter | - | - | - | 3.50% | 3.50% | 3.50% |

The overall long-term rate of return for the pension plan assets was developed by estimating the expected long-term real return for each asset class within the portfolio. An average weighted real rate of return was computed for the portfolio which reflects the Plan’s targeted asset allocation. Consideration was given to the correlation between asset classes and the anticipated real rate of return and was added to the anticipated long-term rate of inflation.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Pension plan investments as of June 30, 2016 were as follows:

| **Pension Plan Investments as of June 30, 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Pension Plan Investments** | | | | |
| **Assets:** | | | | |
| Money Market Instrument (1) | $ - | $ 6,969 | $ - | $ 6,969 |
| Common/Collective Trusts | | | | |
| Emerging Market Equity (3) | - | 10,545 | - | 10,545 |
| International Equity-Developed (3) | - | 78,737 | - | 78,737 |
| Domestic Common Stock (3) | - | 20,717 | - | 20,717 |
| Commodity Inflation Hedging (8) | - | 11,185 | - | 11,185 |
| Common Stock (3) | 26,974 | - | - | 26,974 |
| Fixed Income | - | - | - | - |
| Mortgage Backed Securities (2) | - | 10,468 | - | 10,468 |
| Corporate Bond (2) | - | 37,517 | - | 37,517 |
| Government Bond (2) | 81,691 | - | - | 81,691 |
| Hedge Fund | - | - | - | - |
| Distressed Debt (4) | - | - | - | - |
| Equity Long/short (4) | - | 5,525 | - | 5,525 |
| Event driven (4) | - | (0) | - | (0) |
| Global opportunities (4) | - | 7,173 | - | 7,173 |
| Multi-strategy (4) | - | - | 57 | 57 |
| Mutual Fund | - | - | - | - |
| Emerging Market Equity Security (3) | 15,473 | - | - | 15,473 |
| Domestic Common Stock (3) | 32,177 | - | - | 32,177 |
| International Equity Security (3) | - | - | - | - |
| Domestic Fixed Income (2) | 122,828 | - | - | 122,828 |
| Private Equity and Venture Capital (4) | - | - | 71,620 | 71,620 |
| Real Estate (4) | - | - | 10,790 | 10,790 |
| **Total assets** | **$ 279,143** | **$ 188,835** | **$ 82,467** | **$ 550,445** |
| **Liabilities:** | | | | |
| Financial Derivatives – Option Contracts | $ - | $ (308) | $ - | $ (308) |
| **Total liabilities** | **$ -** | **$ (308)** | **$ -** | **$ (308)** |
| **Total pension plan investments** | **$ 279,143** | **$ 188,527** | **$ 82,467** | **$ 550,137** |
| Operating asset not subjected to fair value reporting (9) | 21,467 | - | - | 21,467 |
| Operating liabilities not subjected to fair value reporting (9) | (36,403) | - | - | (36,403) |
| **Total plan assets** | **$ 264,206** | **$ 188,527** | **$ 82,467** | **$ 535,201** |

Level 3 investments were 15% of total plan investments.

Refer to Note 12 – Fair Value Measurements for explanation of financial instrument classifications.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Pension plan investments as of June 30, 2015 were as follows:

| Pension Plan Investments as of June 30, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Pension Plan Investments** | | | | |
| **Assets:** | | | | |
| Money Market Instrument (1) | $ 391 | $ 10,505 | $ - | $ 10,896 |
| Common/Collective Trusts | | | | |
| Emerging Market Equity (3) | - | 4,616 | - | 4,616 |
| International Equity-Developed (3) | - | 85,472 | - | 85,472 |
| Domestic Common Stock (3) | - | 22,056 | - | 22,056 |
| Commodity Inflation Hedging (8) | - | 13,274 | - | 13,274 |
| Common Stock (3) | 30,937 | - | - | 30,937 |
| Fixed Income | | | | |
| Mortgage Backed Securities (2) | - | 6,938 | - | 6,938 |
| Corporate Bond (2) | - | 2,181 | - | 2,181 |
| Government Bond (2) | 64,809 | - | - | 64,809 |
| Hedge Fund | | | | |
| Distressed Debt (4) | - | 2,769 | - | 2,769 |
| Equity Long/short (4) | - | 5,657 | - | 5,657 |
| Event driven (4) | - | 2,663 | 2,477 | 5,140 |
| Global opportunities (4) | - | 2,488 | - | 2,488 |
| Multi-strategy (4) | - | - | 2,578 | 2,578 |
| Mutual Fund | | | | |
| Emerging Market Equity Security (3) | 18,169 | - | - | 18,169 |
| Domestic Common Stock (3) | 33,357 | - | - | 33,357 |
| International Equity Security (3) | - | - | - | - |
| Domestic Fixed Income (2) | 145,579 | - | - | 145,579 |
| Limited Partnerships (4) | - | - | 80,380 | 80,380 |
| Real Estate (4) | - | - | 11,720 | 11,720 |
| **Total assets** | **$ 293,242** | **$ 158,619** | **$ 97,155** | **$ 549,016** |
| **Liabilities:** | | | | |
| Financial Derivatives – Option Contracts | $ - | $ (63) | $ - | $ (63) |
| **Total liabilities** | **$ -** | **$ (63)** | **$ -** | **$ (63)** |
| **Total pension plan investments** | **$ 293,242** | **$ 158,556** | **$ 97,155** | **$ 548,953** |
| Operating asset not subjected to fair value reporting (9) | 11,989 | - | - | 11,989 |
| Operating liabilities not subjected to fair value reporting (9) | (21,980) | - | - | (21,980) |
| **Total plan assets** | **$ 283,251** | **$ 158,556** | **$ 97,155** | **$ 538,962** |

Level 3 investments were 18% of total plan investments.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

Pension plan investments as of June 30, 2014 were as follows:

| Pension Plan Investments as of June 30, 2014 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Pension Plan Investments** | | | | |
| **Assets:** | | | | |
| Money Market Instrument (1) | $ - | $ 27,336 | $ - | $ 27,336 |
| Common/Collective Trusts | - | - | - | - |
| Emerging market equity (3) | - | 5,382 | - | 5,382 |
| International Equity-Developed (3) | - | 85,821 | - | 85,821 |
| US Common Stock (3) | - | 21,407 | - | 21,407 |
| Commodity Inflation Hedging (8) | - | 17,545 | - | 17,545 |
| Common Stock (3) | 40,216 | - | - | 40,216 |
| Fixed Income (2) | | | | |
| Asset backed | - | 6,961 | - | 6,961 |
| Corporate Bonds | - | 2,276 | - | 2,276 |
| Government Bond | 65,391 | - | - | 65,391 |
| Hedge Funds (4) | | | | |
| Distressed Debt | - | 3,002 | - | 3,002 |
| Equity Long/short | - | 5,271 | - | 5,271 |
| Event driven | - | 2,958 | 3,043 | 6,001 |
| Inflation hedge | - | - | - | - |
| Multi-Global opportunities | - | 4,079 | - | 4,079 |
| Multi-strategy | - | 7,342 | 2,578 | 9,920 |
| Mutual Funds Investment | | | | |
| Domestic common stock (3) | 46,018 | - | - | 46,018 |
| Emerging market equity (3) | 7,198 | - | - | 7,198 |
| International equity (3) | - | - | - | - |
| Domestic Fixed Income (2) | 102,539 | - | - | 102,539 |
| Limited Partnerships (4) | - | - | 90,901 | 90,901 |
| Real Estate (4) | - | - | 13,171 | 13,171 |
| **Total assets** | **$ 261,362** | **$ 189,380** | **$ 109,693** | **560,435** |
| **Liabilities:** | | | | |
| Financial Derivatives – Option Contracts | $ - | $ (7) | $ - | $ (7) |
| **Total liabilities** | **$ -** | **$ (7)** | **$ -** | **$ (7)** |
| **Total pension plan investments** | **$ 261,362** | **$ 189,373** | **$ 109,693** | **$ 560,428** |
| Assets not subject to fair value reporting (9) | $ 4,557 | **$ -** | **$ -** | $ 4,557 |
| Liabilities not subject to fair value (9) | $ (12,380) | **$ -** | **$ -** | $ (12,380) |
| **Total plan assets** | **$ 253,539** | **$ 189,373** | **$ 109,693** | **$ 552,605** |

Level 3 investments were 20% of total plan investments.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The following table presents changes in amounts for financial instruments classified within Level 3 of the valuation hierarchy as previously defined, at June 30, 2016.

| Changes in Level 3 for the period ended June 30, 2016 | Private Equity and Venture Capital | Hedge Funds | Real Estate | Total |
|---|---|---|---|---|
| Balance July 1, 2015 | $ 80,380 | $ 5,055 | $ 11,720 | $ 97,155 |
| Gain and loss (realized and unrealized) | 4,546 | (9) | (2,520) | 2,018 |
| Purchases | 4,542 | - | 5,800 | 10,342 |
| Transfer out and sales | (17,848) | (4,990) | (4,210) | (27,048) |
| **Balance at June 30, 2016** | **$ 71,620** | **$ 57** | **$ 10,790** | **$ 82,467** |
| **Change in unrealized investments held** | **$ (5,553)** | **$ (590)** | **$ 1,072** | **$ (5,070)** |

The following table presents changes in amounts for financial instruments classified within Level 3 of the valuation hierarchy as previously defined, at June 30, 2015.

| Changes in Level 3 for the period ended June 30, 2015 | Private Equity and Venture Capital | Hedge Funds | Real Estate | Total |
|---|---|---|---|---|
| Balance July 1, 2014 | $ 90,901 | $ 5,621 | $ 13,171 | $ 109,693 |
| Gain and loss (realized and unrealized) | 5,411 | (566) | 1,797 | 6,642 |
| Purchases | 6,977 | - | 605 | 7,582 |
| Transfer out and sales | (22,909) | - | (3,853) | (26,762) |
| **Balance at June 30, 2015** | **$ 80,380** | **$ 5,055** | **$ 11,720** | **$ 97,155** |
| **Change in unrealized investments held** | **$ (5,473)** | **$ (566)** | **$ 784** | **$ (5,255)** |

The following table presents changes in amounts for financial instruments classified within Level 3 of the valuation hierarchy as previously defined, at June 30, 2014.

| Changes in Level 3 for the period ended June 30, 2014 | Private Equity and Venture Capital | Hedge Funds | Real Estate | Total |
|---|---|---|---|---|
| Balance July 1, 2013 | $ 93,450 | $ 5,218 | $ 8,743 | $ 107,411 |
| Gain and loss (realized and unrealized) | 17,422 | 403 | 1,736 | 19,561 |
| Purchases | 7,926 | - | 3,506 | 11,432 |
| Transfer out and sales | (27,897) | - | (814) | (28,711) |
| **Balance at June 30, 2014** | **$ 90,901** | **$ 5,621** | **$ 13,171** | **$ 109,693** |
| **Change in unrealized investments held** | **$ 4,073** | **$ 402** | **$ 1,854** | **$ 6,329** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

**Pension Plan Liquidity Terms and Unfunded Commitments –** The following tables represent Howard's investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2016, 2015, and 2014. Real estate funds and limited partnerships do not have readily ascertainable market values and may be subject to withdrawal restrictions.

| Investments as of June 30, 2016 | Fair Value | Unfunded Commitments | Redemption/ Withdrawal Frequency | Redemption/ Withdrawal Notice Period |
|---|---|---|---|---|
| Hedge funds | $ 12,755 | $ - | Monthly-Annually | 45-90 days |
| Real estate funds | 10,790 | 621 | - | 2-5 years |
| Common/collective trusts | 121,202 | - | Monthly | - |
| Limited partnerships | 72,072 | 16,487 | - | ≤ 10 years |

| Investments as of June 30, 2015 | Fair Value | Unfunded Commitments | Redemption/ Withdrawal Frequency | Redemption/ Withdrawal Notice Period |
|---|---|---|---|---|
| Hedge funds | $ 18,632 | $ - | Monthly-Annually | 45-90 days |
| Real estate funds | 11,720 | 1,609 | - | 2-10 years |
| Common/collective trusts | 125,418 | - | Monthly | - |
| Limited partnerships | 80,380 | 15,263 | - | ≤ 10 years |

| Investments as of June 30, 2014 | Fair Value | Unfunded Commitments | Redemption/ Withdrawal Frequency | Redemption/ Withdrawal Notice Period |
|---|---|---|---|---|
| Hedge funds | $ 28,273 | $ - | Monthly-Annually | 45-90 days |
| Real estate funds | 13,171 | 1,654 | - | 2-10 years |
| Common/collective trusts | 130,155 | - | Monthly | - |
| Limited partnerships | 90,901 | 22,029 | - | ≤ 10 years |

The asset allocation of the Plan is analyzed annually to determine the need for rebalancing to maintain an allocation that is within the allowable ranges. The investment strategy is to invest in asset classes that are negatively correlated to minimize overall risk in the portfolio. Interim targets outside of the allowable ranges were set to allow for flexibility in reaching the long-term targets in the private equity and real estate categories.

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

The actual allocation of the Plan for June 30, and the allowable range is as follows:

| Pension Plan Asset Allocation | 2016 | 2015 | 2014 | Allowable Range |
|---|---|---|---|---|
| Mid-Large Cap U.S. Equity | 8.8% | 9.7% | 11.5% | 10-20% |
| Small Cap U.S. Equity | 3.0% | 3.3% | 3.9% | 0-10% |
| International Equity - Developed | 14.7% | 16.0% | 15.8% | 10-20% |
| Private Equity/Venture Capital | 15.4% | 16.3% | 15.7% | 5-15% |
| Hedge Funds | 2.4% | 3.5% | 5.2% | 5-10% |
| Inflation Hedging | 5.4% | 5.9% | 9.7% | 10-15% |
| Emerging Markets Equity | 4.9% | 4.3% | 2.3% | 0-10% |
| U.S. Long Bonds | 44.7% | 39.3% | 31.7% | 25-35% |
| Cash and Cash Equivalents | 0.7% | 1.7% | 4.2% | 0-5% |
| **Total** | **100%** | **100%** | **100%** | |

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2016 is 7.31%. This growth rate was assumed to decrease gradually to 4.5% in 2030 and to remain at this level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid over the next ten years as follows:

| Expected Future Benefit Payments | Pension Benefits | Post-retirement Benefits | | |
|---|---|---|---|---|
| | | Excluding Subsidy | Subsidy Payments | Net of Subsidy |
| Year ending June 30: | | | | |
| 2017 | $ 43,333 | $ 4,645 | $ 140 | $ 4,785 |
| 2018 | 43,932 | 4,601 | 139 | 4,740 |
| 2019 | 44,498 | 4,515 | 137 | 4,652 |
| 2020 | 44,781 | 4,459 | 133 | 4,592 |
| 2021 | 44,666 | 4,376 | 128 | 4,504 |
| Years 2022-2026 | 217,545 | 20,313 | 550 | 20,863 |
| **Total** | **$ 438,755** | **$ 42,909** | **$ 1,227** | **$ 44,136** |

The mortality retirement rates base table used MRP-2007 (Actuary adaptation of the Society of Actuaries' RP2014 table).

If eligible, participants are assumed to retire according to the following schedule:

| Retirement Age | Assumed Rate of Retirement |
|---|---|
| 55 - 60 | 5% |
| 61 - 63 | 12% |
| 64 | 16% |
| 65 | 25% |
| 66 - 69 | 16% |
| 70+ | 100% |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

## Note 20 Commitments and Contingencies

(a) ***Federal Awards***

Howard receives substantial revenues from government grants, contracts, and Federal student financial assistance programs authorized by Title IV and Title VII of the Higher Education Act of 1965. Previous compliance audits have reported certain deficiencies in the administration of both the University's Title IV and Title VII programs and its federal grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government or its designees.

(b) ***Litigation and Other Claims***

During the ordinary course of business**,** Howard is a party to various litigation and other claims in the ordinary course of business including claims of malpractice by the Hospital and faculty physicians. It is also subject to potential future claims based on findings or accusations arising from past practices under governmental programs and regulations and tort law. In fiscal years ended June 30, 2016, 2015, and 2014 Howard reserved $1,135, $1,574 and $3,664, respectively for legal contingencies. In the opinion of management and Howard's general counsel, an appropriate monetary provision has been made to account for probable losses upon ultimate resolution of these matters.

(c) ***Collective Bargaining Agreements***

Howard has several collective bargaining agreements currently in effect with unions representing approximately 1,800 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

## Note 21 Related Party Transactions

(a) ***Howard University Charter Middle School***

Howard University Board of Trustees founded Howard University Charter Middle School of Mathematics and Science, which operates from premises owned by Howard. The Middle School is a separate legal entity and not a component of Howard University. For fiscal years ended June 30, 2016, 2015, and 2014, Howard has contributed to the Middle School as follows:

| **Related Party Transactions** | **2016** | **2015** | **2014** |
|---|---|---|---|
| Cash operating support | $ 1,000 | $ 1,000 | $ 900 |
| Facility leased (market value) | 1,577 | 1,577 | 1,009 |
| **Total** | **$ 2,577** | **$ 2,577** | **$ 1,909** |

For Fiscal Years Ended June 30, 2016, 2015, and 2014 (amounts in thousands)

(b) ***The Howard Dialysis Center***

Howard and American Renal Associates, LLC (ARA) have a joint venture agreement for the operation of the Howard University Dialysis Center LLC (LLC). The entity was formed on March 1, 2012. Howard and the LLC are parties to a non-compete agreement, and Howard jointly guarantees the LLC's debt agreements.

On March 1, 2012, the LLC commenced a lease with Howard for the current space, employees, and Medical Director associated with its Hospital outpatient dialysis services which will result in monthly rental income for Howard in addition to its proportionate share of earnings (losses) of the LLC.

As of fiscal years ending June 30, 2016, 2015, and 2014, the consolidated statements of financial position for the LLC are as follows:

| Howard Dialysis Center, LLC Statements of Financial Position | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Total Assets** | $ 12,200 | $ 12,096 | $ 12,069 |
| **Total Liabilities** | 795 | 590 | 1,177 |
| **Equity** | | | |
| Partner | 6,911 | 7,837 | 8,986 |
| Retained earning | 4,493 | 3,669 | 1,906 |
| **Total Equity** | $ 11,404 | $ 11,506 | $ 10,892 |
| **ARA interest** | $ 5,816 | $ 5,868 | $ 5,555 |
| **Howard interest** | $ 5,588 | $ 5,638 | $ 5,337 |

(c) ***Provident Group – Howard Properties, LLC***

The University entered into a 40-year ground lease with Provident Group – Howard Properties, LLC and Provident Resources Group, Inc. ("Owner") in which the Owner will design, construct and furnish the College Hall North and South dormitory facilities ("dorms") for the benefit of the University. The Owner issued $113,900 in revenue bonds through the District of Columbia to finance the construction of the dorms. The University and Owner entered into a management agreement such that the University will be responsible for managing, operating and maintaining the dorms in conjunction with general business. In general, revenues and expenses associated with the dorm are the responsibility of the Owner. The bonds will be repaid solely from revenues from the dorms. A management fee and ground lease payment will be paid to the University only upon the settlement of various expenses and if minimum cash requirements are made. Reimbursement of utilities expense will be subordinate to debt service. Ownership of the dorms will revert to Howard upon termination of the Ground Lease and full repayment of the debt. The University has not recorded any transactions related to potential future title to or ownership in the dorms for the year ended June 30, 2016.

(d) ***Barnes & Noble College Booksellers, LLC***

Howard engaged Barnes & Noble College Booksellers, LLC to manage and operate its bookstore. The relationship is for the period of April 1, 2014 through March 31, 2019 with an option to renew for an additional five two-year periods, subject to mutual agreement.

(e) ***Campus Apartments***

In August 2014, Howard entered into a subcontractor agreement with Campus Apartments to perform all management responsibilities relating to the newly constructed Student Dormitory Facilities that were completed and placed into service in August 2014.

(f) ***Paladin Healthcare***

Howard University signed a Management Service Agreement (MSA) with Paladin Healthcare. Effective October 6, 2014, Paladin Healthcare assumed responsibility for day-to-day operations of the Hospital under the oversight of a joint Howard and Paladin Healthcare Management Committee. Under the MSA, Howard will continue to be the licensed operator of the Hospital.

## Note 22 Subsequent Events

Howard performed an evaluation of subsequent events through November 23, 2016, which is the date the financial statements were issued, noting no additional events which affect the consolidated financial statements as of June 30, 2016.

## **Reports and Schedules Required by** *Government Auditing Standards* **and Uniform Guidance**

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# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
The Howard University
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Howard University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 23, 2016.

## Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determinate the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as items 2016-001 through 2016-008 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as items 2016-009 through 2016-011 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

**University's Response to Findings**

The University's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

November 23, 2016

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Washington, DC 20001

## Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
The Howard University
Washington, DC

### Report on Compliance for Each Major Federal Program

We have audited The Howard University's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statues, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

*Opinion on Each Major Federal Program*

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

*Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-012, 2016-013, 2016-014, 2016-015, 2016-016, 2016-018, 2016-019 and 2016-020. Our opinion on each major federal program is not modified with respect to this matter.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to our auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-017 that we consider to be a significant deficiency.

The University's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

March 30, 2017

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| **ANNUAL APPROPRIATION** | | | | |
| DEPARTMENT OF EDUCATION | | | | |
| Annual Appropriation | 84.915A | | $ 221,821,000 | $ - |
| **TOTAL ANNUAL APPROPRIATION** | | | **221,821,000** | **-** |
| **FEDERAL ENDOWMENTS** | | | | |
| DEPARTMENT OF JUSTICE | | | | |
| Constitutional Law Chair Endowment | 16.000 | | 5,190,195 | - |
| SUBTOTAL FOR THE DEPARTMENT OF JUSTICE | | | **5,190,195** | **-** |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Excellence in Health Professional Education Endowment | 93.375 | | 4,190,837 | - |
| SUBTOTAL FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | **4,190,837** | **-** |
| DEPARTMENT OF EDUCATION | | | | |
| Matching Endowment | 84.000 | | 124,656,463 | - |
| Law School Clinical Endowment | 84.998D | | 9,785,613 | - |
| SUBTOTAL FOR THE DEPARTMENT OF EDUCATION | | | **134,442,076** | **-** |
| **TOTAL FEDERAL ENDOWMENTS** | | | **143,823,108** | **-** |
| **STUDENT FINANCIAL AID CLUSTER** | | | | |
| DEPARTMENT OF EDUCATION | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | 798,973 | - |
| Federal Work Study | 84.033 | | 2,086,312 | - |
| Federal Perkins Loan (FPL) Federal Capital Contribution | 84.038 | | 314,848 | - |
| Federal Pell Grant Program | 84.063 | | 13,818,207 | - |
| Federal Direct Loans | 84.268 | | 172,120,407 | - |
| Teacher Education Assistance for College and Higher Education Grants (TEACH) | 84.379 | | 21,322 | - |
| SUBTOTAL FOR THE DEPARTMENT OF EDUCATION | | | **189,160,069** | **-** |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Scholarship for Disadvantaged Students | 93.925 | | 2,448,641 | - |
| Primary Care Loans for Disadvantaged Students | 93.342 | | 342,881 | - |
| SUBTOTAL FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | **2,791,522** | **-** |
| **TOTAL FOR THE STUDENT FINANCIAL AID CLUSTER** | | | **191,951,591** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| **TRIO CLUSTER** | | | | |
| DEPARTMENT OF EDUCATION | | | | |
| TRIO - Student Support Service | 84.042 | | 52,268 | - |
| Office of Postsecondary Education | | | | |
| Upward Bound Program | 84.047A | | 384,849 | - |
| Upward Bound Program | 84.047M | | 201,572 | - |
| Subtotal for the Office of Postsecondary Education | | | 586,421 | - |
| **TOTAL FOR THE TRIO CLUSTER** | | | **638,689** | **-** |
| **RESEARCH AND DEVELOPMENT CLUSTER** | | | | |
| *Direct Research and Development Awards* | | | | |
| DEPARTMENT OF COMMERCE | | | | |
| Polymer Hydrogel Structure of Nanorod Encapsulation Using Small Angeneutron | 11.609 | | 7,757 | - |
| | | | **7,757** | **-** |
| National Oceanic and Atmospheric Administration | | | | |
| NOAA Center for Atmospheric Sciences at Howard University | 11.481 | | 1,867,311 | 354,042 |
| NOAA Center for Atmospheric Sciences at Howard University | 11.481 | | 45,296 | 80,614 |
| NOAA Center for Atmospheric Sciences at Howard University | 11.481 | | 1,190,076 | 443,235 |
| Subtotal for the National Oceanic and Atmospheric Administration | | | **3,102,683** | **877,891** |
| SUBTOTAL FOR THE DEPARTMENT OF COMMERCE | | | **3,110,440** | **877,891** |
| DEPARTMENT OF DEFENSE | | | | |
| Infrared Analysis in Counterfeit Parts Detection and Supply Chain Validation | 12.000 | | 19,556 | 9,696 |
| US Army Medical Command | | | | |
| A Partnership Training Program: Studying Targeted Drug Delivery Using Nanoparticles in Breast Cancer Diagnosis and Therapy | 12.420 | | 344,411 | - |
| Diverting the Pathway to Substance Misuse by Improving Sleep | 12.420 | | 114,940 | - |
| Subtotal for the US Army Medical Command | | | **459,351** | **-** |
| US Army Materiel Command | | | | |
| Extracting Social Meaning From Linguistic Structures in African Languages | 12.431 | | 286,355 | 67,420 |
| Bio-inspired structured Graphical Models for Inference and Information Fusion | 12.431 | | 81,019 | 53,410 |
| Bayesian Imaging and Advanced Signal Processing for Landmine and IED Detection | 12.431 | | 583,833 | 198,402 |
| Dynamic Failure of Aluminum-Based and Polymer Matrix Composites at High Strain Rates | 12.431 | | 90,563 | - |
| Fast Chemical Dynamics of Energetic Materials at High Pressures and Temperatures Studied by Ultrafast Laser Techniques | 12.431 | | 91,411 | - |
| | | | 1,133,181 | 319,232 |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| Improving Cloud and Aerosol Treatment in Modtran | 12.630 | | 59,827 | - |
| Optimizing the Dynamic Response of Ultrafine Grain and Hybrid Alloys under Impact Loading | 12.630 | | 27,261 | - |
| Request Twin Screw Extruder to Enhance DoD Interest Polymer Nanocomposit Research and STEM Program | 12.630 | | 126,262 | - |
| | | | 213,350 | - |
| Feasibility Study to Evaluate Candidate Materials of Nano Filled Block Co-Polymers for use in Ultra High Density Pulsed Power Capacitors | 12.800 | | 521 | 6,026 |
| The Effect of Multi-Mode Induced Transition in a Hypersonic Boundary Layers | 12.800 | | 12,728 | - |
| | | | 13,249 | 6,026 |
| Subtotal for the US Army Materiel Command | | | **1,359,780** | **325,258** |
| SUBTOTAL FOR THE DEPARTMENT OF DEFENSE | | | **1,838,687** | **334,954** |
| DEPARTMENT OF THE INTERIOR | | | | |
| Hawaiian Land Snails Extinction Prevention | 15.657 | | 58,531 | 52,547 |
| Ethnographic Overview and Assessment of the Quaker/Colored Union Benevolent Cemetery Site at Rock Creek and Potomac Parkway for Rock Creek Park | 15.904 | | 26,076 | - |
| Diversity Research in Coordination with the Healthy Parks Healthy People Program | 15.945 | | 12,491 | - |
| SUBTOTAL FOR THE DEPARTMENT OF THE INTERIOR | | | **97,098** | **52,547** |
| NATIONAL ENDOWMENT FOR THE HUMANITIES | | | | |
| The J. Clay Smith, Jr., Papers Project | 45.149 | | 17,192 | - |
| From Classical Civilization to Ancient Mediterranean Studies | 45.162 | | 326 | - |
| Sheshat: A Digital Humanities Initiative in Literature, Language and Criticism | 45.162 | | 20,719 | - |
| | | | 21,045 | - |
| Portal to the Black Expectance | 45.312 | | 33,884 | 28,993 |
| SUBTOTAL FOR THE NATIONAL ENDOWMENT FOR THE HUMANITIES | | | **72,121** | **28,993** |
| NATIONAL SCIENCE FOUNDATION | | | | |
| Engineering Grants | | | | |
| Efficient Operation and Control of Power System Networks with Increased DG Penetration | 47.041 | | 4,369 | - |
| Workshop: Sustainable Energy | 47.041 | | 2,798 | - |
| I-Corps Sites : Howard University | 47.041 | | 38,898 | - |
| MRI: Development of Testbed Platform for Advanced Multi-Stage Automation and Control for Samrt and Micro Grid | 47.041 | | 60,057 | 39,773 |
| CAREER: Passive Seismic Protective Systems for Nonstructural System and Components in Multistory Building | 47.041 | | 151,664 | - |
| Collaborative Research: PSERC: Collaborative Proposal for Phase III Industry University Cooperative Research Center Program | 47.041 | | 64,603 | - |
| A Pre-College for Engineering Systems (PCES) Outreach Program | 47.041 | | 75,303 | - |
| Subtotal for the Engineering Grants | | | **397,692** | **39,773** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| Mathematical and Physical Sciences | | | | |
| Ramsey Theory: Central Sets and Related Combinatorially Rich Sets | 47.049 | | 60,000 | - |
| REU Site in Physics at Howard University | 47.049 | | 86,387 | - |
| CBMS Conference: Mathematical Foundations of Transpiration Optics | 47.049 | | 3,775 | - |
| Partnership for Reduced Dimensional Materials | 47.049 | | 401,288 | 134,584 |
| FRG: Collaborative Research: Developing Mathematical Algorithms for Adoptive, Geodisc Mash MHD for use in Astrophysics and Space Physics | 47.049 | | 36,457 | - |
| Subtotal for the Mathematical and Physical Sciences | | | **587,907** | **134,584** |
| Geosciences | | | | |
| EAGER: Evolutionary History and Paleoecology of the Last Old World Hyperion Super lineage | 47.050 | | 9,372 | - |
| Subtotal for the Geosciences | | | **9,372** | **-** |
| Computer and Information Science and Engineering | | | | |
| CS 10K: The Partnership for Early Engagement in Computer Sciences High School Program | 47.070 | | 94,716 | - |
| Subtotal for the Computer and Information Science and Engineering | | | **94,716** | **-** |
| Biological Sciences | | | | |
| Cannabinoid Signaling in olfactory Glomeruli | 47.074 | | 55,581 | 35,633 |
| URM: Howard University Environment Biology Scholars | 47.074 | | 13,949 | - |
| Collaborative Proposal: ARTS: Revisionary Systematics of Fossil and Living Caribbean Favild and Mussid reef corals ( Cindaria, Anthozoa, Scleractina) | 47.074 | | 19,511 | - |
| MRI: Acquisition of Flow Cytometric Analyzer for Research and Training at Howard University | 47.074 | | 88,082 | - |
| Subtotal for the Biological Sciences | | | **177,123** | **35,633** |
| Social, Behavioral, and Economic Sciences | | | | |
| SBES Alliance Collaborative Research: Atlantic Coast | 47.075 | | 6,199 | - |
| A Multidisciplinary Network Analysis of Musculoskeletal Complexity, Integration, Modularity, and Evolvability of the Primate Head and Limbs | 47.075 | | 20,854 | 781 |
| Collaborative Research: Skeletal Muscle constraint on relative brain size | 47.075 | | 6,363 | - |
| Subtotal for the Social, Behavioral, and Economic Sciences | | | **33,416** | **781** |
| Education and Human Resources | | | | |
| Howard Univerity Science Teacher Certification Program (HU-STCP) | 47.076 | | 82,790 | - |
| Chemistry, Mathematics, and Physics Scholarships (CMaPS) at Howard University | 47.076 | | 126,319 | - |
| Targeted Infusion Project: An Innovative Approach to Improving Undergraduate Student Performance in Computer Science at Howard University | 47.076 | | 86,135 | - |
| Experimental Centric Based Engineering Curriculum for HBCUs | 47.076 | | 1,181,368 | 737,000 |
| Increasing the Participation and Advancement of Women in Academic Science and Engineering Careers | 47.076 | | 697,731 | - |
| Multiple Consciousnesses: Investigating the Identities (Academic, Gender, Race and Disability) of Black Women Undergraduate Students in STEM and Their Impact on Persistence | 47.076 | | 23,343 | - |
| Targeted Infusion Project: Integrating Innovation in Engineering Design | 47.076 | | 137,836 | - |
| E-Communities: Investigating how a collaboration between STEM educators and engineers impact underserved youth's participation in engineering design | 47.076 | | 132,512 | 33,521 |
| 2015 - 2020 Washington Baltimore Hampton Roads (WBHR) Louis Stokes Alliances for Minority Participation Program | 47.076 | | 264,249 | 100,373 |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| Collaborative Research: Developing Course Modules to Teach Service-Oriented Programming Through Exemplification and Visualization | 47.076 | | 14,917 | - |
| Global Education Awareness and Research Undergraduate Program | 47.076 | | 13,393 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 3,182 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 14,616 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 4,530 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 10,000 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 6,556 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 10,814 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 11,106 | - |
| HU Advance IT: Women of Color Faculty in STEM as Change Agents | 47.076 | | 7,193 | - |
| LSAMP - Washington Baltimore Hampton Roads Alliance | 47.076 | | 434,778 | 284,381 |
| PAC- Involved : Engaging students in PAC ( Physics, Astronomy, Cosmology) Learning through Repurposing of Popular Media | 47.076 | | 57,012 | 9,840 |
| Enhancing Participation Research Project: Minority Status and Stereotypes: The Benefits and Consequences as they related to STEM Participation and Success at an HBCU | 47.076 | | 96,733 | - |
| Research Initiation Award- Basic Mechanism of DNA Assembly into Nano- Shells | 47.076 | | 69,209 | - |
| Collaborative Research: Developing and Assessing Effective Cyber learning within the STEMWiki Hyperlibrary | 47.076 | | 14,629 | - |
| Planning Grant for the Howard University Institute of Psychological Science Excellence in STEM Workforce Development and Education of Women and Girls | 47.076 | | 21,535 | - |
| Enhancement of the Undergraduate Physics Program in the Department of Physics and Astronomy at Howard University | 47.076 | | 63,175 | - |
| Broadening STEM Participation of African American Males | 47.076 | | 113,876 | - |
| Building Connections and Learning Communities among Educators and Researchers at HBCUs | 47.076 | | 500,981 | - |
| Mentoring by Example | 47.076 | | 7,422 | - |
| ACE Implementation Grant: STEM Global Undergraduate Research Initiative | 47.076 | | 354,236 | - |
| Subtotal for the Education and Human Resources | | | **4,562,176** | **1,165,115** |
| SUBTOTAL FOR THE NATIONAL SCIENCE FOUNDATION | | | **5,862,402** | **1,375,886** |
| NUCLEAR REGULATORY COMMISSION | | | | |
| HU Critical Mass Project: Increasing the Number of African Americans Receiving Doctoral Degrees in Nuclear Physics | 77.007 | | 40,000 | - |
| SUBTOTAL FOR THE NUCLEAR REGULATORY COMMISSION | | | **40,000** | **-** |
| DEPARTMENT OF ENERGY | | | | |
| Utilization of Renewable Energy to Meet New National Challenges in Energy and Climate Change | 81.087 | | 83,247 | - |
| Novel Low-Cost Environmentally Friendly Synthetic Approaches Toward Core-Shell Structured Micro-Particles for Fossil Energy Applications | 81.089 | | 7,990 | - |
| SUBTOTAL FOR THE DEPARTMENT OF ENERGY | | | **91,237** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| DEPARTMENT OF EDUCATION | | | | |
| National Resource Centers | 84.015A | | 133,110 | - |
| Foreign Language and Area Studies Fellowships | 84.015B | | 376,260 | - |
| SUBTOTAL FOR THE DEPARTMENT OF EDUCATION | | | **509,370** | **-** |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| High Strength Bioresorbable Polyactide/Calcium Phosphate Composites | 93.121 | | 157,881 | 26,048 |
| Humanized EGFR and EGFRvII-bispecific Immunotoxin for HNSCC Therapy | 93.121 | | 43,954 | - |
| Howard University Summer Research Experience Program in Oral Health Disparity for Underrepresented Racial and Ethnic Students | 93.121 | | 31,000 | - |
| | | | 232,835 | 26,048 |
| Howard University NWDP Project | 93.137 | | 217,502 | - |
| Howard University Substance Abuse and HIV Prevention Outreach Program (SHOP) | 93.243 | | 257,494 | - |
| Howard University Substance Abuse and HIV Prevention Outreach Program (HU SHOP II) | 93.243 | | 48,581 | - |
| Howard University SBIRTMedical Professionls Program | 93.243 | | 71,690 | - |
| Howard University SBIRTMedical Professionls Program | 93.243 | | 45,481 | 4,420 |
| Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals | 93.243 | | 4,183 | - |
| Behavioral Health Workforce Education and Training for Professionals and Paraprofessionals | 93.243 | | 139,947 | - |
| | | | 567,376 | 4,420 |
| Ward 1 Drug Free Coalition | 93.276 | | 118,931 | - |
| National Institutes of Health | | | | |
| *Mental Health Research Grants* | | | | |
| Using Olfactory Epithelial Tissue to Define Molecular Mediators of Lithium Action | 93.242 | | 527,125 | 149,850 |
| Mechanisms of Pediatric HIV Neurological Impairment | 93.242 | | 31,170 | - |
| *Subtotal for the Mental Health Research Grants* | | | **558,295** | **149,850** |
| *Alcohol Research Programs* | | | | |
| Novel Interventions in Alcohol Induced Depression | 93.273 | | 63,079 | - |
| Mechanism of Alcohol Induced Cardiomyopathy | 93.273 | | 20,233 | - |
| Excessive Alcohol Drinking Associated with GABA Alpha 2-Regulated TLR4 Expression | 93.273 | | 118,034 | - |
| Excessive Alcohol Drinking Associated with GABA Alpha 2-Regulated TLR4 Expression | 93.273 | | 185,904 | 80,761 |
| Subtotal for the Alcohol Research Programs | | | **387,250** | **80,761** |
| Drug Abuse and Addiction Research Programs | | | | |
| Using Implementation Science for Community-Based SBIRT Delivery to Older Adults | 93.279 | | 105,309 | 5,726 |
| The Role of Orexin in the Co-Occurrence of Binge Eating and Drug Addiction | 93.279 | | 27,862 | - |
| Subtotal for the Drug Abuse and Addiction Research Programs | | | **133,171** | **5,726** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| National Institute on Minority Health and Health Disparities | | | | |
| Washington DC-Baltimore Research Center on Child Health Disparities | 93.307 | | 1,287,588 | 813,786 |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 135,087 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 33,079 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 34,715 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 317,225 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 60,519 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 1,500 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 4,134 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 83,530 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 479,338 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 415,208 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 151,287 | - |
| Health Disparities Research through International Exchange | 93.307 | | 250,368 | - |
| Violence Exposure, Immune Function and HIV AIDS Risks in African American Young Adults | 93.307 | | 301,475 | - |
| Violence Exposure, Immune Function and HIV AIDS Risks in African American Young Adults | 93.307 | | 76,069 | - |
| International Conference on Stigma | 93.307 | | 39,021 | - |
| Biomedical Infrastructure for Health Disparities Research | 93.307 | | 110,358 | - |
| *Subtotal for the National Institute on Minority Health and Health Disparities* | | | **3,780,501** | **813,786** |
| *National Cancer Institute* | | | | |
| 1/2 Howard/ Hopkins Intercenter Collaboration in HPV-Associated Cancer Studies | 93.393 | | 109,040 | - |
| 1/2 Howard/ Hopkins Intercenter Collaboration in HPV-Associated Cancer Studies | 93.393 | | 34,647 | - |
| Genetic Signatures Underlying Prostate Cancer Metastasis in African Americans | 93.393 | | 3,527 | - |
| *Subtotal for the National Cancer Institute* | | | **147,214** | **-** |
| *National Heart, Lung, and Blood Institute* | | | | |
| Center for Hemoglobin Research in Minorities (CHaRM) | 93.837 | | 1,016,975 | - |
| Inhibition of HIV-1 in Sickle Cell Disease | 93.839 | | 41,714 | - |
| Inhibition of HIV-1 in Sickle Cell Disease | 93.839 | | 254,195 | - |
| | | | 295,909 | - |
| *Subtotal for the National Heart, Lung, and Blood Institute* | | | **1,312,884** | **-** |
| *National Institute of Arthtitis and Musculoskeletal and Skin Diseases* | | | | |
| Targeting Accessory Proteins of Alpha2C Adrenergic Receptor in Raynaud Phenomenon | 93.846 | | 39,708 | - |
| *Subtotal for the National Institute of Arthtitis and Musculoskeletal and Skin Diseases* | | | **39,708** | **-** |
| *National Institute of Diabetes and Digestive and Kidney Diseases* | | | | |
| Improving Attendance to Outpatient Endoscopy Appointments Among Blacks | 93.847 | | 118,808 | - |
| *Subtotal for the National Institute of Diabetes and Digestive and Kidney Diseases* | | | **118,808** | **-** |
| *Allergy and Infectious Diseases Research* | | | | |
| Effective Replicating Adenovirus- HIV Vaccines | 93.855 | | 29,617 | - |
| Therapeutics Targeting Filoviral Interferon - Antagonist and Replication Functions | 93.855 | | 92,224 | - |
| *Subtotal for the Allergy and Infectious Diseases Research* | | | **121,841** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| *Biomedical Research and Research Training* | | | | |
| Molecular Analyses of RECQ1 Functions in Genome Maintenance | 93.859 | | 139,327 | - |
| NsrR regulation of the small noncoding RNA RybB in Escherichia coli | 93.859 | | 38,404 | - |
| Crosstalk and the Cytoskeleton in Dendritic Cell Antigen Presentation | 93.859 | | 167,995 | - |
| HU MARC USTAR Program | 93.859 | | 103,788 | - |
| Novel Nanotechnology Platform for Breast Cancer Treatment | 93.859 | | 192,148 | - |
| *Subtotal for the Biomedical Research and Research Training* | | | **641,662** | **-** |
| *National Institute of Aging* | | | | |
| Advancing Aging Research Through Development of Minority Gerontologists | 93.866 | | 282,066 | - |
| Genes, Exercise, Neurrocognitive and Neurodegeneration: Community-Based Approch | 93.866 | | 431,510 | 62,031 |
| Dopamine-Mediated Regulation of Blood Pressure in Aging: Role of NHERF-1 | 93.866 | | 54,826 | - |
| *Subtotal for the National Institute of Aging* | | | **768,402** | **62,031** |
| Subtotal for National Institutes of Health | | | **8,009,736** | **1,112,154** |
| SUBTOTAL FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | **9,146,380** | **1,142,622** |
| | | | | |
| DEPARTMENT OF HOMELAND SECURITY | | | | |
| The Graduating Engineers in the U.S. (GENIUS) Research Program: Infusing DHS Research into Undergraduate Education at Howard University | 97.062 | | 72,549 | - |
| SUBTOTAL FOR THE DEPARTMENT OF HOMELAND SECURITY | | | **72,549** | **-** |
| *Subtotal for the Direct Research and Development Awards* | | | **20,840,284** | **3,812,893** |
| | | | | |
| *Pass-Through Research and Development Awards* | | | | |
| | | | | |
| DEPARTMENT OF COMMERCE | | | | |
| Cooperative Institute for Climate and Satelites (University of Maryland) | 11.432 | 20135- Z7813002 | 68,020 | - |
| SUBTOTAL FOR THE DEPARTMENT OF COMMERCE | | | **68,020** | **-** |
| | | | | |
| DEPARTMENT OF DEFENSE | | | | |
| Investigation of the Structure-Property Relationship of Functionalized Multi Walled Carbon Nanotube/Epoxy Nano composite (Massachusetts Institute of Technology) | 12.000 | 5710003423 | 57,269 | - |
| Logical Vanishability through Hybrid STTLUT Technology to Prevent Reverse Engineering (George Mason University) | 12.000 | FA8650-15-C-7569 | 44,979 | - |
| | | | 102,248 | - |
| | | | | |
| Tailoring the Properties of Stimuli Responsive Nanocomposite Hydrogels for Potential Use in Wound Healing and Prevention of Antimicrobial Infection (Massachusetts Institute of Technology) | 12.431 | 5710004062 | 14,679 | - |
| Roswell Park/Howard University Prostate Cancer Scholars Program (Health Research Inc) | 12.420 | 145-01 | 11,401 | - |
| SUBTOTAL FOR THE DEPARTMENT OF DEFENSE | | | **128,328** | **-** |
| | | | | |
| NATIONAL AERONAUTICS AND SPACE ADMINISTRATION | | | | |
| National Space Grant College and Fellowship Program (SPACE Grant) Training Grant 2015-2018 (American University) | 43.008 | 31377-HU-16 | 24,000 | - |
| SUBTOTAL FOR THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION | | | **24,000** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| NATIONAL SCIENCE FOUNDATION | | | | |
| Engineering Grants | | | | |
| NNIN National Nanotechnology Infrastructure Network (Cornell University) | 47.041 | 44771-7480 | 57,809 | - |
| NSF Engineering Research Center for Smart Lighting (Rensselaer Polytechnic Institute) | 47.041 | EEC-0812056 | 38,268 | - |
| Subtotal for the Engineering Grants | | | **96,077** | **-** |
| Mathematical and Physical Sciences | | | | |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826- 5056261 | 516,543 | 47,642 |
| Alliance for Building Faculty Diversity in the Mathematical Sciences (North Carolina State University) | 47.049 | 2009-2719-06 | 46,646 | - |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826-5056261 | 2,376 | - |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826- 5056261 | 158,291 | - |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826- 5056261 | 21,162 | - |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826- 5056261 | 46,923 | - |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826- 5056261 | 4,482 | - |
| Center for Integrated Quantum Materials (Harvard University) | 47.049 | 123826- 5056261 | 6,781 | - |
| Materials Research Science and Engineering Center on Polymer (University of Massachusetts) | 47.049 | 09-005233D00 | 9,617 | - |
| Subtotal for the Mathematical and Physical Sciences | | | **812,821** | **47,642** |
| Computer and Information Science and Engineering | | | | |
| Emerging Frontiers of the Science of Information (Purdue University) | 47.070 | 0939370-CCF | 1,333 | - |
| Subtotal for the Computer and Information Science and Engineering | | | **1,333** | **-** |
| Biological Sciences | | | | |
| Center for the Environmental Implications of Nanotechnology (Duke University) | 47.074 | 09-NSF-1051 | 25,897 | - |
| Center for the Environmental Implications of Nanotechnology (Duke University) | 47.074 | 14-NSF-1050 | 60,120 | - |
| Subtotal for the Biological Sciences | | | **86,017** | **-** |
| Social, Behavioral, and Economic Sciences | | | | |
| Collaborative Research: Stereotype Validation and Intellectual Performance | 47.075 | | 45,505 | - |
| Subtotal for the Social, Behavioral, and Economic Sciences | | | **45,505** | **-** |
| Education and Human Resources | | | | |
| The CIRTL Network: 25 Research Univerities Preparing a National Faculty to Advance STEM Undergraduate Learning (University of Wisconsin) | 47.076 | 530K471 | 54,581 | - |
| Preparing Students for Writing in Civil Engineering Practice Research - based Materials Development and Assessment (Portland State University) | 47.076 | 203CON405 | 12,540 | - |
| A National Model for Engineering Mathematics Education (Wright State University) | 47.076 | P0029309 | 9,020 | - |
| Subtotal for the Education and Human Resources | | | **76,141** | **-** |
| Polar Programs | | | | |
| Collaborative Research Continued Research on the Jurassic Vertebrate Fauna from the Beardmore Glacier Region of Antarctica (Field Museum of Natural History) | 47.078 | 50119-1-FDP | 311 | - |
| Collaborative Research Continued Research on the Jurassic Vertebrate Fauna from the Beardmore Glacier Region of Antarctica (Field Museum of Natural History) | 47.078 | 50119-1 FDP | 3,794 | - |
| Subtotal for the Polar Programs | | | **4,105** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| Office of International Science and Engineering | | | | |
| Bio recognizable Multifunctional Polymeric Nanoparticles for Combination Cancer Therapy (South Ural State University) | 47.079 | OISE-9531011 | 8,379 | - |
| PIRE: Building Extreme Weather Resiliency and Global Community Resiliency through Improved Weather and Climate Prediction and Emergency Response Strategies (Harvard University) | 47.079 | 15-65 | 14,000 | - |
| PIRE: Building Extreme Weather Resiliency and Global Community Resiliency through Improved Weather and Climate Prediction and Emergency Response Strategies (Harvard University) | 47.079 | 15-65 | 5,700 | - |
| Subtotal for the Office of International Science and Engineering | | | **28,079** | **-** |
| SUBTOTAL FOR THE NATIONAL SCIENCE FOUNDATION | | | **1,150,078** | **47,642** |
| DEPARTMENT OF ENERGY | | | | |
| Consortium Risk Evaluation with Stakeholder Participation III (Vanderbilt University) | 81.000 | 19067-S1 | 66,202 | - |
| SUBTOTAL FOR THE DEPARTMENT OF ENERGY | | | **66,202** | **-** |
| DEPARTMENT OF EDUCATION | | | | |
| Mathematics and Science Partnerships (District of Colombia -State Education Office) | 84.366B | 52366B | 192,036 | - |
| Mathematics and Science Partnerships (District of Colombia -State Education Office) | 84.366B | 42366B | 125,151 | - |
| Improving Teacher Quality State Grants- State Agency for Higher Education (District of Colombia -State Education Office) | 84.366B | 42367B | 27,724 | - |
| | | | 344,911 | - |
| 2014- 2015 SEED Professional Development in a High-Need School Grant (University California) | 84.367D | 95- DC01-SEED-2012 | 935 | - |
| 2014-2016 SEED Teacher Leadership Development Grant (University California) | 84.367D | 95-DC01-SEED2012 1A | 4,194 | - |
| | | | 5,129 | - |
| SUBTOTAL FOR THE DEPARTMENT OF EDUCATION | | | **350,040** | **-** |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| National Center for MCH Workforce Development (University of North Carolina) | 93.110 | 5-37982 | 9,259 | - |
| National Center for MCH Workforce Development (University of North Carolina) | 93.110 | 5102024 | 32,740 | - |
| | | | 41,999 | - |
| AIDS Education and Training Centers (University of Pittsburgh) | 93.145 | 0050178(126702-1) | 13,391 | - |
| AIDS Education and Training Centers (University of Pittsburgh) | 93.145 | 0051443(126850-1) | 2,160 | - |
| | | | 15,551 | - |
| Sickle Cell Treatment Demonstration Program (John Hopkins University) | 93.361 | JHU PO-2002376518 | 39,886 | - |
| Prevention at Home: A Model for Novel Use of Mobile Technologies and Integrated Care Systems to Improve HIV Prevention and Care While Lowering Cost (George Washington University) | 93.610 | 1C1MS331343-02-00 | 76,241 | - |
| Strong Start for Mothers and Newborns (Providence Health Foundation of Providence Hospital) | 93.611 | 1D1CMS331151-02-01 | 42,459 | - |
| DC Screen for Life: Collateral Cancer Control Program (District of Columbia Department of Health) | 93.800 | CHA.CCSP.HU022016 | 1,312 | - |
| National Institutes of Health | | | | |
| Biomarker and Safety Study of Clozapine in Benign Ethnic Neutropenia (University of Maryland) | 93.242 | 1R01MH102215-01A1 | 65,333 | - |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| JHU - UMD Diabetes Research Center (John Hopkins University) | 93.847 | 5P30DK079637-08 | 58,305 | - |
| JHU - UMD Diabetes Research Center (John Hopkins University) | 93.847 | SOM-PO-2002462531 | 24,150 | - |
| JHU - UMD Diabetes Research Center (John Hopkins University) | 93.847 | PO-DRC-2002061853 | 89,144 | - |
| | | | 171,599 | - |
| *Subtotal for National Institutes of Health* | | | **236,932** | **-** |
| *National Center for Advancing Translational Sciences* | | | | |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-075-HU-CER | 16,506 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-082-HU-KL2 | 14,854 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-081-HU-EVAL | 6,347 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-076-HU-PCIR | 275,840 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-074-HU-REKS | 17,286 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-073-HU-DBPS | 12,813 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-071-HU-GOV | 22,078 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-0072-HU-BI | 22,447 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-0077-HU-RETCD | 17,954 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 1UL1TR001409-01 | 380,507 | 8,885 |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 1UL1TR001409-01 | 161,874 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 1KL2TR001432-01 | 72,303 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 1UL1TR001409-01 | 36,925 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 1UL1TR001409-01 | 75,410 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 1TL1TR001431-01 | 46,991 | - |
| Center for Clinical and Transitional Sciences - (Georgetown University) | 93.350 | 411852_GR411428-HU-RIP | 130,299 | - |
| Center for Clinical and Transitional Sciences - (Georgetown University) | 93.350 | 411858_GR411431-HU-KL2 | 3,376 | - |
| Center for Clinical and Transitional Sciences - (Georgetown University) | 93.350 | 411850_GR411426-HU-TSB | 53,483 | - |
| Center for Clinical and Transitional Sciences - (Georgetown University) | 93.350 | 411851_GR411427-HU-REM | 38,109 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 411849_GR411425-HU-ADM | 27,200 | - |
| Center for Clinical and Transitional Sciences - (Georgetown University) | 93.350 | 411853_GR411429-HU-NRO | 14,497 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | 411163_GR411109-HU-NRO | 35,917 | - |
| Center for Clinical and Translational Sciences - (Georgetown University) | 93.350 | RX 4004-079-HU-PCSP | 20,943 | 7,911 |
| *Subtotal for the National Center for Advancing Translational Sciences* | | | **1,503,959** | **16,796** |
| *Allergy and Infectious Diseases Research* | | | | |
| Therapeutics Targeting Filoviral Interferon - Antagonist and Replication Functions (Icahn School of Medicine) | 93.855 | 0255-6772-4609 | 272,560 | - |
| In Vitro and in Vivo Studies of Cytomegalovirus MIE Gene Regulation | 93.855 | | 351,442 | - |
| Terry Beirn CPCRA Clinical Trials Unit (George Washington University) | 93.855 | 16-M06R | 79,246 | - |
| Terry Beirn CPCRA Clinical Trials Unit (George Washington University) | 93.855 | 16-M07R | 26,674 | - |
| A City-Wide DC Cohort of HIV Infected Persons in Care in the District of Columbia (George Washington University) | 93.855 | 15-M07R | 69,011 | - |
| The District of Columbia Developmental Center for AIDS Research (DCD-CFAR) (George Washington University) | 93.855 | 11-M56R | 41,500 | - |
| A City-Wide DC Cohort of HIV Infected Persons in Care in the District of Columbia (George Washington University) | 93.855 | 15-M08R | 30,166 | - |
| *Subtotal for the Allergy and Infectious Diseases Research* | | | **870,599** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| *Drug Abuse and Addiction Research Programs* | | | | |
| Development of the Based Telencephallc Limic System (Children's Research Institute) | 93.279 | 30000732-13-01 | 2,625 | - |
| Lyrica- Georgetown Univerity Study on Pain in Buprenorphine Patients (Georgetown University) | 93.279 | 5U01DA029580-03/4 | 20,558 | - |
| *Subtotal for the Drug Abuse and Addiction Research Programs* | | | **23,183** | **-** |
| *Minority Health and Health Disparities Research* | | | | |
| Center of Excellence for Health Disparities in the Nation's Capital (Georgetown University) | 93.307 | RX 4442-033-HU | 530 | - |
| The Hampton University Regional Transdisciplinary Collaborative Center (Hampton University) | 93.307 | HU-140005 | 65,469 | - |
| *Subtotal for the Minority Health and Health Disparities Research* | | | **65,999** | **-** |
| *National Cancer Institute* | | | | |
| Analysis of Racial Disparities in HCC by Systems Metabolomics (Georgetown University) | 93.396 | U01CA185188-01A1 | 17,869 | - |
| *Subtotal for the National Cancer Institute* | | | **17,869** | **-** |
| *National Heart, Lung, and Blood Institute* | | | | |
| Inhibition of HIV-1 in Sickle Cell Disease (John Hopkins University) | 93.839 | 2001443920 | 3,971 | - |
| *Subtotal for the National Heart, Lung, and Blood Institute* | | | **3,971** | **-** |
| Subtotal for the National Institutes of Health | | | **2,722,512** | **16,796** |
| SUBTOTAL FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | **2,939,960** | **16,796** |
| | | | | |
| DEPARTMENT OF HOMELAND SECURITY | | | | |
| Center of Excellence for Command, Control and Interoperability- Year 7 (Rutgers University) | 97.061 | 5739 | 31,567 | - |
| SUBTOTAL FOR THE DEPARTMENT OF HOMELAND SECURITY | | | **31,567** | **-** |
| *Subtotal for the Pass-Through Research and Development Awards* | | | **4,758,195** | **64,438** |
| **TOTAL FOR THE RESEARCH AND DEVELOPMENT CLUSTER** | | | **25,598,479** | **3,877,331** |
| | | | | |
| **AGING CLUSTER** | | | | |
| | | | | |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Staff Development and Training Grant (District Colombia -Office of Aging) | 93.044 | HOW016-15 | 33,183 | - |
| Hayes Senior Wellness Center Operation (District Colombia -Office of Aging) | 93.044 | HUSCW-15 | 163,930 | - |
| | | | 197,113 | - |
| | | | | |
| Hayes Senior Wellness Center Disease Prevention and Health Promotion Services (District Colombia -Office of Aging) | 93.043 | HUSCW-16 | 258,022 | - |
| **TOTAL FOR THE AGING CLUSTER** | | | **455,135** | **-** |
| | | | | |
| **HIGHWAY PLANNING AND CONSTRUCTION CLUSTER** | | | | |
| | | | | |
| DEPARTMENT OF TRANSPORTATION | | | | |
| Highway Planning and Construction | | | | |
| Transportation Cvil Rights Intership Research (District of Columbia - Department of Transportation) | 20.205 | PO527552 | 9,320 | - |
| 2015 Fall Semester Internship Program (District of Columbia - Department of Transportation) | 20.205 | PO531636 | 30,835 | - |
| Transportation research Administration Support (District of Columbia - Department of Transportation) | 20.205 | PO531635 | 17,288 | - |
| 2016 Summer Transportation Institute (District of Columbia - Department of Transportation) | 20.205 | PO542901 | 22,050 | - |
| Part 1-2015 Summer Transportation Insittute (District of Columbia - Department of Transportation) | 20.205 | PO518290 | 6,240 | - |
| 2015 Summer Internship Program (District of Columbia - Department of Transportation) | 20.205 | PO520858 | 168,980 | - |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| Transportation Civil Rights Studies Internship (District of Columbia - Department of Transportation) | 20.205 | PO522228 | 6,480 | - |
| Trafic Safty Data Center (District of Columbia - Department of Transportation) | 20.205 | PO533336 | 384,983 | 101,756 |
| Part 1-2015 Summer Transportation Insittute (District of Columbia - Department of Transportation) | 20.205 | PO518290 | 120 | - |
| Engineering Standards Revision (District of Columbia - Department of Transportation) | 20.205 | PO520179 | 12,896 | - |
| Subtotal for the Highway Planning and Construction | | | **659,192** | **101,756** |
| Highway Training and Education | | | | |
| Dwight David Eisenhower Transportation Fellowship Program Historically Black Colleges and Universities Fellowship | 20.215 | | 8,390 | - |
| Dwight David Eisenhower Transportation Fellowship Program Historically Black Colleges and Universities Fellowship | 20.215 | | 7,500 | - |
| Transportation Research and Technology Development (District of Columbia - Department of Transportation) | 20.215 | PO521890 | 75,663 | - |
| Subtotal for the Highway Training and Education | | | **91,553** | **-** |
| State and Community Highway Safty | | | | |
| 2016 Annual Seat Belt Use Survey Design (District of Columbia - Department of Transportation) | 20.600 | PO542139 | 13,400 | - |
| 2015 Annual Seat Belt Use Survey Design (District of Columbia - Department of Transportation) | 20.600 | PO520825 | 60,956 | - |
| Subtotal for the State and Community Highway Safty | | | **74,356** | **-** |
| **TOTAL FOR THE HIGHWAY PLANNING AND CONSTRUCTION CLUSTER** | | | **825,101** | **101,756** |
| **AIDS EDUCATION AWARDS** | | | | |
| *Direct AIDS Education Awards* | | | | |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| AIDS Education Training Center (University of Pittsburgh) | 93.145 | 0019469(124872-3) | 34,176 | - |
| AIDS Education and Training Centers (University of Pittsburgh) | 93.145 | 1U1OHA29295-01-00 | 43,738 | - |
| AIDS Education and Training Centers (University of Pittsburgh) | 93.145 | 1U1OHA29295-01-00 | 114,527 | - |
| *Subtotal for the Pass-Through AIDS Education Awards* | | | **192,441** | **-** |
| **TOTAL FOR THE AIDS EDUCATION AWARDS** | | | **192,441** | **-** |
| **HIV AND RYAN WHITE AWARDS** | | | | |
| *Direct HIV and Ryan White Awards* | | | | |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Health Resources and Services Administration | | | | |
| Ryan White Part C Out Patient EIS Program | 93.918 | | 34,212 | - |
| Ryan White Part C Outpatient EIS Program | 93.918 | | 282,811 | - |
| | | | 317,023 | - |
| Dental Reimbursement Program | 93.924 | | 163,296 | - |
| Subtotal for the Health Resources and Services Administration | | | **480,319** | **-** |
| *Subtotal for the Direct HIV and Ryan White Awards* | | | **480,319** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| *Pass-Through HIV and Ryan White Awards* | | | | |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Health Resources and Services Administration | | | | |
| *HIV Emergency Relief Project Grants* | | | | |
| HIV Core Medical Services and /or HIV Support Services (District of Colombia - Department of Health) | 93.914 | 15Y016 | 628,299 | - |
| HIV Core Medical Services and /or HIV Support Services (District of Colombia - Department of Health) | 93.914 | 16Z016 | 253,740 | - |
| *Subtotal for the HIV Care Formula Grants* | | | **882,039** | **-** |
| *HIV Care Formula Grants* | | | | |
| HIV Core Medical Service and/or HIV Support Services (District of Colombia - Department of Health) | 93.917 | 15Y4-04 | 232,266 | - |
| HIV Care Medical Service and /or HIV Support Services (District of Colombia - Department of Health) | 93.917 | 16Z404 | 78,277 | - |
| *Subtotal for the HIV Care Formula Grants* | | | **310,543** | **-** |
| Subtotal for the Health Resources and Services Administration | | | **1,192,582** | **-** |
| *Subtotal for the Pass-Through HIV & Ryan White Awards* | | | **1,192,582** | **-** |
| **TOTAL FOR THE HIV AND RYAN WHITE AWARDS** | | | **1,672,901** | **-** |
| **OTHER FEDERAL AWARDS** | | | | |
| DEPARTMENT OF JUSTICE | | | | |
| Howard University Campus Safety First Program | 16.525 | | 58,380 | - |
| SUBTOTAL FOR THE DEPARTMENT OF JUSTICE | | | **58,380** | **-** |
| U.S. DEPARTMENT OF STATE | | | | |
| *Academic Exchange Programs - Undergraduate Programs* | | | | |
| Mandela Washington Fellowship (IREX) | 19.009 | FY16-YALI-PM- Howard- 03 | 130,627 | - |
| Mandela Washington Fellowship (IREX) | 19.009 | FY15-YALI- Howard- 02 | 36,505 | - |
| *Subtotal for the Academic Exchange Programs - Undergraduate Programs* | | | **167,132** | **-** |
| *Charles B. Rangel International Affairs Program* | | | | |
| Charles B. Rangel Foreign Affairs Fellowship and Summer Enrichment Program | 19.020 | | 25,535 | - |
| Charles B. Rangel Foreign Affairs Fellowship and Summer Enrichment Program | 19.020 | | 2,119,536 | 6,700 |
| Charles B. Rangel International Affairs Graduate Fellowship and Summer Enrichment Program | 19.020 | | 854,840 | 7,110 |
| The 2016 Charles B. Rongel International Affairs Program | 19.020 | | 756,938 | - |
| 2013 Charles B. Rangel Fellowship | 19.020 | | 13,836 | - |
| *Subtotal for the Charles B. Rangel International Affairs Program* | | | **3,770,685** | **13,810** |
| SUBTOTAL FOR THE U.S. DEPARTMENT OF STATE | | | **3,937,817** | **13,810** |
| DEPARTMENT OF TRANSPORTATION | | | | |
| Design and Implementation of an ALS Protection and Power Quality Control Scheme with Improved Performance | 20.108 | | 87,051 | - |
| Tier 1 Transit-Focused University Transportation Center (San Jose State University) | 20.701 | 21-1100-4903-HU | 9,386 | - |
| SUBTOTAL FOR THE DEPARTMENT OF TRANSPORTATON | | | **96,437** | **-** |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| NATIONAL AERONAUTICS AND SPACE ADMINISTRATION | | | | |
| Solar System Exploration Research Virtual Institute | 43.001 | | 10,902 | - |
| SUBTOTAL FOR THE NATIONAL AERONAUTICS AND SPACE ADMINISTRATION | | | **10,902** | **-** |
| SMALL BUSINESS ADMINISTRATION | | | | |
| Small Business Development Center- District of Columbia (Anacostia Economic Development Corporation) | 59.037 | SBAHQ-15-B-0070 | 295,275 | 117,859 |
| Small Business Development Center- District of Columbia (Anacostia Economic Development Corporation) | 59.037 | SBAHQ-16-B-0033 | 276,769 | 42,170 |
| SUBTOTAL FOR THE SMALL BUSINESS ADMINISTRATION | | | **572,044** | **160,029** |
| DEPARTMENT OF ENERGY | | | | |
| DOE Chair of Excellence Professorship in Environmental Discipline | 81.123 | | 185,353 | - |
| Exploring the Roll of Individual Employee Characteristics and Personality on Employee Compliance with Cyber Security Policies (North Carolina A&T University) | 81.123 | 270111D | 74,822 | - |
| SUBTOTAL FOR THE DEPARTMENT OF ENERGY | | | **260,175** | **-** |
| DEPARTMENT OF EDUCATION | | | | |
| Institutional Research Engagement Program at Howard University (IREPHU) | 84.120A | | 55,966 | - |
| Office of Special Education and Rehabilitative Services | | | | |
| Combined Priority for Personnel Development | 84.325K | | 23,688 | - |
| Howard University Pipeline for Leaders and Scholars in Communication Disorders | 84.325K | | 311,474 | - |
| Subtotal for the Office of Special Education and Rehabilitative Services | | | **335,162** | **-** |
| SUBTOTAL FOR THE DEPARTMENT OF EDUCATION | | | **391,128** | **-** |
| DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Centers of Excellence | 93.157 | | 553,450 | - |
| ARRA - Training in Primary Care Medicine and Dentistry: Physician Assistant Training in Primary Care | 93.403 | | 24,292 | - |
| Field - Imitated Program (Dartmouth College) | 93.433 | | 190,192 | 34,197 |
| Howard University Health Careers Opportunity Program | 93.822 | | 152,267 | - |
| Howard University Health Careers Opportunity Program | 93.822 | | 302,830 | - |
| | | | 455,097 | - |
| Living Smartly with Diabetes: Using PWP and Mobile PWP for Self-Management | 93.879 | | 45,300 | - |
| Baby Hug Follow-up Study II: Clinical Sites | 93.936 | | 15,057 | - |
| HIV Prevention & Intervention Services (District of Columbia Department of Health) | 93.943 | 15Y202 | 29,521 | - |
| HIV Prevention & Intervention Services (District of Columbia Department of Health) | 93.943 | 15Y202 | 72,942 | - |
| | | | 102,463 | - |

# The Howard University

## Schedule of Expenditure of Federal Awards

## For the Year Ended June 30, 2016

| Program Description | CFDA Number | Pass-Through Award / Contract Number | Total Federal Expenditures | Passed Through to Sub-recipients |
|---|---|---|---|---|
| Centers for Disease Control and Prevention | | | | |
| *Global AIDS Program* | | | | |
| GH11 - 1154, S. Africa : Surveillance of HIV Positive Pre-Arts Persons by HU in Partnership W SANAC | 93.067 | | 128,073 | - |
| Surveillance of HIV Positive Pre-arts persons by HU in partnership with SANAC | 93.067 | | 87,222 | - |
| Surveillance of HIV Positive Pre-arts persons by HU in partnership with SANAC | 93.067 | | 232,922 | - |
| *Subtotal for the Global AIDS Program* | | | **448,217** | **-** |
| *Public Health Emergency Preparedness* | | | | |
| Capital City Pharmacy Medical Reserve Corp (MRC) (District of Colombia - Department of Health) | 93.069 | RQ8880310 | 38,024 | - |
| *Subtotal for the Public Health Emergency Preparedness* | | | **38,024** | **-** |
| Subtotal for the Centers for Disease Control and Prevention | | | **486,241** | **-** |
| Health Resources and Services Administration | | | | |
| MCH Pipeline Training Program | 93.110 | | 159,980 | - |
| School- Based Health Center (District of Colombia - Department of Health) | 93.501 | PO353895-8 | 80,320 | - |
| School- Based Health Center (District of Colombia - Department of Health) | 93.501 | PO353895 | 208,590 | - |
| | | | 288,910 | - |
| Adult Transition Program for Children and Young Adults with Sickle Cell Disease (District of Columbia Department of Health) | 93.994 | PO462459 | 46,354 | - |
| A Comprehensive Sickle Cell Disease Program (District of Columbia Department of Health) | 93.994 | CHA.PSMB. HU-PED.052013 | 25,547 | - |
| | | | 71,901 | - |
| *Grants for Training in Primary Care Medicine and Dentistry* | | | | |
| Post-Doctoral Training in Pediatrics | 93.884 | | 99,020 | - |
| *Subtotal for the Maternal and Child Health Federal Consolidated Programs* | | | **99,020** | **-** |
| Subtotal for the Health Resources and Services Administration | | | **619,811** | **-** |
| SUBTOTAL FOR THE DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | **2,491,903** | **34,197** |
| AGENCY FOR INTERNATIONAL DEVELOPMENT | | | | |
| USAID Foreign Assistance for Programs Overseas | | | | |
| Strengthening Integrated Delivery of HIV AIDS Services (SIDHAS) - Nigeria (Family Health International) | 98.001 | AID-620-A-11-00002 | 4,745,096 | - |
| Clinical HIV/AIDS Systems Strengthening (CHASS) | 98.001 | | 86,309 | - |
| Foreign Service Diversity Fellowship Program | 98.001 | | 820,066 | - |
| SUBTOTAL FOR THE AGENCY FOR INTERNATIONAL DEVELOPMENT | | | **5,651,471** | **-** |
| CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | | | |
| Jumpstart DC at Howard University Program (Jump Start Children First) | 94.006 | 410200 | 10,808 | - |
| Jumpstart DC at Howard University Program (Jump Start Children First) | 94.006 | 410200 | 50,920 | - |
| SUBTOTAL FOR THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE | | | **61,728** | **-** |
| **TOTAL FOR THE ALL OTHER FEDERAL AWARDS** | | | **13,531,985** | **208,036** |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | **$ 600,510,430** | **$ 4,187,123** |

See accompanying notes to the schedule of expenditures of federal awards.

## 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the expenditures of The Howard University (the "University") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, and cash flows of the University.

For purposes of the Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards made to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. CFDA numbers and pass through numbers are provided when available.

The reimbursement of indirect costs reflected in the accompanying consolidated financial statements as federal grants revenue is subject to final approval by federal grantors and could be adjusted upon the results of these reviews. Management believes that the results of any such adjustment would be immaterial to the University's consolidated financial position or changes in net assets. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

All of the University's federal awards were in the form of cash assistance for the year ended June 30, 2016.

The University was the recipient of federal funds awarded through the American Recovery and Reinvestment Act ("ARRA"). These funds were expended by the federal government with the intent to stimulate the American economy, supplement existing federal programs and create new programs. There are additional compliance and reporting matters associated with these awards. These awards are separately presented in the Schedule and the title ARRA precedes each award title.

## 2. Summary of Significant Accounting Policies for Federal Award Expenditures

*Basis of Presentation*

The accompanying Schedule has been prepared using the accrual basis of accounting.

*Expenditures*

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Expenditures for federal student financial aid programs are recognized as incurred and include Federal Pell Grant Program awards to students, Federal Supplemental Educational Opportunity Grant awards to students and Federal Work-Study Program wages paid, certain other federal financial assistance grants for students, administrative cost allowances, and loan disbursements.

## 3. Facilities and Administrative Costs ("F&A Costs")

Expenditures for non-financial aid awards include indirect costs, relating primarily to facilities operation and maintenance, general, divisional, and departmental administrative services, which are allocated to direct cost objectives (including federal award programs) based on negotiated formulas commonly referred to as indirect cost rates, which were negotiated with the Department of Health and Human Services. A portion of indirect costs allocated to some awards for the year ended June 30, 2016 were based on individual grantor rates.

The University operates under predetermined F&A cost rates which are effective from July 1, 2012 to June 30, 2016. The predetermined fixed rates are based on 2012 financial information. The base rates for off-campus research and on-campus research have been amended effective July 1, 2014 to June 30, 2016 to 26% and 51%, respectively. Base rates for the other F&A cost recoveries ranged from 8% to 55% for the year ended June 30, 2016.

## 4. Federal Student Loan Programs

The University receives awards to make loans to eligible students under the Federal Perkins Loan Program and Federal Direct Student Loans Program of the Department of Education, and Health Professions and Nursing Student Loan Programs of the Department of Health and Human Services. Campus-based loan programs which include the Federal Perkins Loan Program are administered directly by the University. Balances and transactions relating to these programs are included in the University's basic financial statements. These administrative allowances related to these loan programs for the year ended June 30, 2016 were zero. Additional information regarding these programs for the year ended June 30, 2016 is summarized below:

| Campus-Based Loan Programs | FY 2016 Loans Issued | FY 2016 Loans Collected/ Cancelled | Outstanding June 30, 2016 |
|---|---|---|---|
| Federal Perkins Loans | $ 314,848 | 296,902 | $ 3,380,213 |
| Health Professional and Disadvantaged Students | 342,881 | 133,677 | 3,969,879 |
| Nursing Student Loans | - | 22,338 | 228,394 |
| **Total Campus-Based Loan Programs** | **$ 657,729** | **452,917** | **$ 7,578,486** |

The University is responsible for the performance of certain administrative duties with respect to Federal Direct Student Loans disbursed by the Department of Education on behalf of the University's students under the Federal Direct Student Loans programs (Subsidized Stafford Loans, Unsubsidized Stafford Loans, and Parent PLUS Loans). These loan programs collectively are CFDA number 84.268 and are disclosed on the Schedule in the amount of $172,120,407. It is not practical to determine the balance of loans outstanding to students and former students of the University under these federally guaranteed loan programs at June 30, 2016.

## Section I—Summary of Auditor's Results

*Financial Statements*

| | | | | |
|---|---|---|---|---|
| Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP | **Unmodified** | | | |
| Internal control over financial reporting: | | | | |
| • Material weakness(es) identified? | **X** | yes | | no |
| • Significant deficiency(ies) identified? | **X** | yes | | none reported |
| Noncompliance material to financial statements noted? | | yes | **X** | no |

*Federal Awards*

| | | | | |
|---|---|---|---|---|
| Internal control over major programs: | | | | |
| • Material weakness(es) identified? | | yes | **X** | no |
| • Significant deficiency(ies) identified? | **X** | yes | | none reported |
| Type of auditor's report issued on compliance for major federal programs: | **Unmodified** | | | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | **X** | yes | | no |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| Various | Student Financial Assistance Cluster |
| Various | Research and Development Cluster |
| Various | Highway Planning and Construction Cluster |
| 16.000 | Constitutional Law Chair Endowment |
| 19.020 | Charles B. Rangel International Affairs Program |
| 84.915A | Annual Appropriation |
| 84.998D | Law School Clinical Endowment |
| 98.001 | USAID Foreign Assistance for Programs Overseas |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | **$3,000,000** |
| Auditee qualified as low-risk auditee? | ______ yes ___X___ no |

## Section II - Financial Statement Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting.

**FINDING 2016-001**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted certain benefit plan and payroll information was inaccurate and errors were identified related to payments made to current and former employees.

*Background:*

As noted in prior management letters, we have noted certain matters with respect to the internal controls in the University's on-boarding process that include the processing of timely terminations, missing documentation (including certain personnel records), and insufficient information systems controls in Kronos and Lawson. While such matters continued in the current fiscal year, additional matters identified included:

1) Management discovered a matter where the University's benefits administrator was the only individual that received data from participants, had access to change both participant data and distribution information in the Plan's Trustee's system, and was the only person that reviewed such changes (including the ability to change a participant's status from "deceased" to "active"). In addition, there were no separate controls for a different individual to compare active participants receiving benefits to regularly provided lists of deceased participants - that information was also provided solely to the benefits administrator. As a result of the lack of segregation of duties, the benefits administrator was able to inappropriately redirect pension benefit payments; and,

2) Multiple instances of cumulative underpayments to faculty and staff totaling approximately $145k. Such underpayments resulted from pay rate changes that were not fully reconciled to PeopleSoft. In addition, we noted $435k of non-faculty overpayments that occurred during the year related to 61 individuals. The majority of the overpayments were caused by the lack of an identified control to determine that terminations are appropriately processed, including that the terminated individual was removed from payroll information before it is transmitted. There were also some instances that stemmed from the lack of an identified control to ensure that all job roles within PeopleSoft are the actual current approved roles for the specific individuals. In addition, while there was an institution-wide pay increase approved in March 2016 applied retroactively to January 2016, in some instances there was inconsistent or no documentation to support which type of personnel were not eligible to receive the increase, and overall documentation to support the pay rate change was not consistently added to employee records.

*Context:*

The University did not have adequately designed internal controls over human resources that were operating effectively.

*Recommendation:*

Management should reconsider the structure and overall processes and procedures surrounding the University's (including Hospital) Human Resources function. Such matters need to consider overall on-boarding process, documentation maintenance/retention, and internal control procedures over pay rate changes as well as key benefit functions.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The Vice President of Human Resources is evaluating the structure and staffing and plans to reorganize the human resources function to address internal control and segregation of duties. The reorganization will centralize many of the activities currently dispersed throughout the organization and is expected to be completed during fiscal 2018.

**FINDING 2016-002**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted certain user access rights within the financial reporting application were inappropriate.

*Background:*

In the prior year we noted issues related to access rights and user administration within certain applications that are related to the financial statement close process. Per our discussions with management, these issue were not specifically remediated during the current year. Such matters, which we specifically noted as well in the current year, included the following issues related to PeopleSoft, Kronos, and Soarian:

1) Some users had an inappropriate level of access that was not commensurate with their roles or requested access by the Office of the Controller;

2) Some users had administrative access that was not commensurate with their job titles or roles; and,

3) Some users possessed the ability and knowledge to make changes to the production environment (change management) without management's authorization.

Related to the above issues, we noted that there are 101 users with the ability to post and approve journal entries in PeopleSoft. Of the 101 total users, 22 users were consultants as of year end, 10 consultants could not be accounted for, access for 6 consultants should be removed per inquiries with the Office of the Controller, and 2 consultants are no longer engaged by the University but still had access. Furthermore, PeopleSoft access for the majority of individuals should be limited to posting but not approval of journal entries.

Additionally, the University is in the process of drafting its formal disaster recovery plan (DRP) and business continuity plan that categorizes potential levels of impact (e.g., usually based on outage duration/loss of operations), defines roles and responsibilities, and prescribes the respective response procedures for all University business units (including the Hospital). However, this process was not completed as of year-end, nor as of the date that we completed our fieldwork. As also noted in the prior year, formal backup and recovery and business continuity procedures were still not in place during fiscal year 2016. The University suffered several breakdowns in its delivery of IT services including, but not limited to, wireless network coverage gaps, network failures, interruptions to customer service, and systems outages in both Banner and PeopleSoft during the fiscal year. The continued lack of a disaster recovery plan and formal policies and procedures that address business interruption and backup procedures negatively impacted the University's ability to quickly respond.

*Context:*

The University did not have adequately designed internal controls over information system user access and administration that were operating effectively.

*Recommendation:*

We recommend that management align the priorities of its Enterprise Technology Systems department with those of the overall University and Hospital by finalizing a disaster recovery plan, performing a detailed IT risk assessment to thoroughly identify potential risks and evaluating access rights and roles based on appropriate segregation of job duties.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The remediation of this issue requires partnering between IT and the respective business owners of the applications. Management has determined that the business owners of the applications will perform the access reviews. In prior years the reporting to aid in access review has been difficult and voluminous. IT has undertaken to write more focused reports to facilitate the business owners of the applications to more efficiently review the information and make clear determinations for access. The improved process is expected to be completed prior to year end 2017. Going forward, the process will be completed at least twice a year. In the interim, legacy reports have been submitted to the business owners for access review. All specifically documented inappropriate access has been cleaned-up and removed upon notification by the business owners.

The University has backup and recovery procedures and in the spring of 2016 complimented that with a formal Disaster Recovery Plan (DRP) and business continuity plan. The plans were not tested until July of 2016, missing the year end cut off for inclusion in the fiscal 2016 audit procedures.

**FINDING 2016-003**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted that sufficient documentation supporting certain material transactions recorded in the general ledger was not retained by management.

*Background:*

As a result of our testing procedures, we noted that the accounting implications for a certain material third-party transaction did not have final management accounting conclusions available at the time our audit. Upon further inquiry, there was insufficient information available to management with regards to the fair value of the real estate underlying the third party transaction, which prevented management from determining and concluding upon the appropriate accounting treatment. A robust system of internal controls should include internal processes that allow management to obtain the information necessary to reach independent accounting conclusions separate from our audit procedures.

*Context:*

The University did not have adequately designed internal controls over the accounting for material transactions that were operating effectively.

*Recommendation:*

We recommend that such matters be discussed and considered internally for appropriate accounting and treatment, and while external service providers should be utilized for consultation, such matters should be concluded upon by management appropriately during the process.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Management has implemented a process to have all material business transactions reviewed and discussed by the appropriate departments prior to execution. The Chief Financial Officer, General Counsel and Controller will discuss all material business transactions internally for the appropriate accounting treatment prior to engaging in third party consultations.

**FINDING 2016-004**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted that the Hospital's reserves for medical malpractice claims were materially overstated.

*Background:*

Currently, the Hospital evaluates the adequacy of its reserves for medical malpractice claims, including those incurred but not reported (IBNR), at year-end. This process includes a review of data by a reputable, national actuarial firm to provide management with an estimated range of liability associated with such claims. The basis of the estimated liability is incorporated into monthly journal entries to ensure that an adequate reserve is maintained by the Hospital to pay these claims as they are settled. During the audit, the actuarial report did not support the reserve recorded by the Hospital. The Hospital's reserve was approximately $12 million overstated compared to the range provided by the actuarial firm.

*Context:*

The University did not have adequately designed internal controls over medical malpractice reserves that were operating effectively.

*Recommendation:*

We recommend that the Hospital consider obtaining an actuarial report or updated valuation of the medical malpractice liability on a quarterly basis. In doing so, Hospital Management will be able to adjust reserves appropriately in a timely manner thereby ensuring accurate reporting of interim financial information. This would be more effective than waiting until year-end to determine that reserves are properly recorded.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

To minimize volatility in actuarially determined liability for medical malpractice and related incurred but not reported claims, hospital management has revised its policy to require at least three evaluations of the required reserves by the actuaries for fiscal year 2017, and no less than quarterly studies in the subsequent fiscal years. The University Chief Financial Officer has requested a formal review of the actuarial process for malpractice and the related accounting to be completed prior to the end of fiscal 2017.

**FINDING 2016-005**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, significant delays occurred and certain audit adjustments were identified due to the untimely preparation of account reconciliations.

*Background:*

During the course of the year-end Hospital audit, it was noted that many accounts lacked timely and accurate reconciliations at year-end. Reconciliations were either not being performed consistently throughout the fiscal year and/or adequately reviewed by management. The following accounts had issues with year-end reconciliations: 1) cash (reconciliations for June 2016 were not completed until late August 2016 (after audit fieldwork began)); 2) accounts receivable (reconciliations were not prepared consistently throughout the fiscal year; year-end reconciliation completed only after much difficulty and assistance in November 2016); 3) accounts payable (reconciliation for June 2016 was not completed). The listing of "Received Not Invoiced" did not agree to the year-end trial balance provided at the onset of audit fieldwork; 4) Third-Party Settlement Reserve (rollforward/reconciliation not prepared except as an audit request. The initial rollforward provided was incorrect. The second rollforward revealed that a $2 million adjustment was necessary.); (5) accrued expenses (duplicate expense accruals were discovered during audit testwork indicating lack of adequate review by management); (6) fixed assets (rollforward/reconciliation provided during audit fieldwork revealed that assets maintained outside of the Asset Management System, a material amount, were not adequately supported nor was the depreciation of those items accurately calculated.) These issues noted indicate lack of adequate review by financial management.

The preparation of timely and accurate account reconciliations subjected to an appropriate level of review by financial management is a key control to ensure the accuracy of financial information provided to the other members of Hospital Management, University Management and ultimately the University Board. Such reconciliations and review are also necessary to ensure that Hospital assets are safeguarded against misappropriation.

*Context:*

The University did not have adequately designed internal controls over account reconciliations and consolidated financial reporting that were operating effectively.

*Recommendation:*

We recommend that the Hospital develop a monthly checklist to assist in its closing procedures that includes the preparation of reconciliations for all accounts and review by an independent party within the finance department, ideally at a manager level. Reconciliations should also be reviewed by the Assistant Chief Financial Officer as well as the Chief Financial Officer. Evidence of their review(s) should be noted.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Effective January 1, 2017, hospital accounting policy was amended to include completion of general ledger account reconciliations prior to the close of the following month. The revised policy requires the review and approval of reconciliations by the designated finance/accounting personnel and also by the Assistant CFO or the CFO. Reconciling items require research and resolution by the close of the following month.

**FINDING 2016-006**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted that certain Hospital journal entries were not properly approved.

*Background:*

Our audit procedures performed over the Hospital's journal entries revealed one instance of a journal entry in which the business purpose, support and approval was not clearly evidenced nor was the Hospital able to provide an explanation. The journal entry affected an accrual and related expense accounts. The total of the journal entry was $2.6 million. Furthermore, no evidence of review or approval of this entry was provided.

*Context:*

The University did not have adequately designed internal controls over journal entry support and review that were operating effectively.

*Recommendation:*

All journal entries posted to the Hospital's general ledger should be adequately supported as well as have been reviewed and approved prior to posting. We recommend that evidence of this review and approval be noted at that time.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Effective with the January 2017 accounting close, hospital accounting policy was revised to require review of all manual journal entries by the designated finance/accounting personnel and the Assistant CFO to ensure accuracy and appropriateness. The revised policy includes review and attachment of adequate supporting documentation to all journal entries. To evidence completeness, the designated finance/accounting personnel who is not the preparer is required to initial the journal entry indicating approval. The revised hospital accounting policy further requires review of monthly journal logs that list all manual recurring journal entries to be reviewed and signed off by the designated finance/accounting personnel, the Assistant CFO or the CFO at least quarterly.

**FINDING 2016-007**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted certain deficiencies with respect to Patient Accounts Receivable and the related allowance.

*Background:*

During the audit, several deficiencies were noted with respect to Patient Accounts Receivable, including the related supporting and allowance accounts. These deficiencies include the following: 1) As previously noted above, no reconciliation of Patient Accounts Receivable was performed during the year or at year-end; 2) Credit balances, noted in the prior year, were addressed and improvement was noted. However, testwork indicated that approximately $3m of new patient credits were generated. It was further noted that exceptions were noted with respect to how the previous years' credits were addressed. In some cases, legitimate refunds were written off as if they were posting errors; 3) Payor classification errors were noted at the individual patient level. Such misclassifications have the potential to impact the reserve calculation for contractual and uncollectible allowances. These reserves are based on the underlying payor, including self-pay; 4) Unidentified Cash was noted to have inadequate support. In many cases, the payment source was unknown and supporting documentation could not be located. In other cases, no documentation could be located to support to which patient account the payment should be applied.

Furthermore, it became obvious through discussions with Hospital Management that a consistent methodology or process was not being followed with respect to the analyses and estimation of reserves for contractual and uncollectible accounts. During the third quarter of the fiscal year, Management revised their existing methodology by increasing the "cliff" associated with the point in time at which an older account becomes 100% reserved. That cliff was moved from 180 days old to 270 days old. That shift represented the only change in methodology. However, it was noted that the Hospital experienced limitations with respect to its modeling software. The software utilized was in fact an older version no longer supported by its vendor. The software did not allow for enough specificity with respect to the classification of the allowances associated with contractual adjustments, uncollectible accounts as well as charity care provided. The integrity of the Hospital's methodology was further undermined by the fact that Management did not maintain or update its retrospective review, including "Waterfall Report" of cash collected versus reserves recorded, throughout the year. Both the retrospective review and waterfall reports were only prepared, with much difficulty, to accommodate audit requests.

*Context:*

The University did not have adequately designed internal controls over patient accounts receivable and the related reserves that were operating effectively.

*Recommendation:*

Patient accounts receivables/revenue and related allowance accounts represent a significant portion of the Hospital's balance sheet and income statement, reflective of its significance to the Hospital's mission and operations. The accuracy of this information is key to accurate financial reporting as well as tools to be utilized by management to improve the Hospital's operations. We recommend that the Hospital implement a comprehensive process in place to ensure that these accounts are reconciled timely. These reconciliations should be reviewed by an appropriate level of management. A process should be put in place in which credit balances are investigated in a timely manner to determine the nature of the credit balance. Credit balances that represent amounts owed to third parties should be reflected as such and processed for payment in a timely manner. Similarly, credit balances representing posting errors should be corrected in a timely manner to ensure that patient account information is accurately reported. With respect to the Hospital's reserve methodology, we recommend that management utilize a retrospective review and waterfall to analyze the accuracy of the estimation process. This should be evaluated monthly and the process fine-tuned as needed. Once a methodology has been agreed to, it should be applied consistently throughout the fiscal year. We agree with the plan indicated by management to upgrade the modeling software. This would be a wise investment to ensure accurate reporting with the appropriate level of specificity. Furthermore, such an upgrade would enable management to more easily, efficiently and consistently apply its methodology to each reporting period.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Hospital management relies on the Crowe software to estimate allowances to patient account receivables. Significant updates to Crowe were made in October and November 2016 to improve the platform's reliability in estimating net realizable value of accounts receivables. Other system improvements designed to enhance completeness and data validation are expected to be completed by March 2017. In addition to the changes to Crowe, the hospital expects completion of upgrades and data validation in Kreg, a subsidiary application used in netting down patient accounts upon bill-drop, by March 2017. Completion of the upgrades will facilitate hospital finance team's “hindsight” analysis, at least quarterly, to test the accuracy of the patient accounting model. Effective with the February 2017 accounting close, hospital finance performs an analysis on the zero balance account (“ZBA”) payors to validate or allow for adjustments of the estimated collection percentage used to estimate expected receivables for many of the payor groups, at least quarterly.

**FINDING 2016-008**

*Criteria or Specific Requirement:*

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. During our audit procedures, we noted certain deficiencies related to the communication and coordination between the Hospital and the University.

*Background:*

During the audit, we noted that communication and reporting between the Hospital and University should be enhanced, particularly with respect to the coordination of interdivisional items. Such communication and coordination is critical to ensure the completeness and accuracy of financial information reported internally at each entity.

For example, the information provided by Hospital management was not timely and was inaccurate at various points in the financial statements reporting process. Furthermore, Hospital management did not provide a complete set of financial statements with related disclosures. Most notably, the pension plan financial information and disclosures were not accurate nor properly reflected, and there were other miscellaneous errors or omissions in the disclosures to the financial statements. Such matters ultimately impact the accuracy and completeness of the information at the University with respect to University management's preparation of the consolidated financial statements.

*Context:*

The University did not have adequately designed internal controls over internal communications and financial reporting that were operating effectively.

*Recommendation:*

We recommend that the University implement formal internal controls regarding the communication and coordination between the University and the Hospital, as this is critical to ensure the completeness and accuracy of financial information reported both internally and externally.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Effective with the February 2017 accounting close, the University's Controller's Office has established formal pre-close and post close meetings with the Hospital's Chief Financial Officer and Assistant Chief Financial Officer to discuss critical accounting issues, internal controls, coordination and key interdivisional transactions.

**FINDING 2016-009**

*Criteria or Specific Requirement:*

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit procedures, we noted that certain interfaces within financial reporting applications required improvements.

*Background:*

As noted in the prior year, the “interface” between the Banner and PeopleSoft systems that shares information related to student receivables, revenues, and other related transactions is only partly automated. While the manual aspect of the interface is still occurring (e.g. downloading batches from Banner that are uploaded to PeopleSoft), the query underlying the information uploaded to PeopleSoft is not in sufficient detail such that variances or outliers can be quickly identified and corrected or reconciled. Further, the information that is pulled into PeopleSoft is not granular enough to allow management to perform management reporting and analysis, or to perform detailed audit analytics.

Furthermore, the continued manual nature of the control relies on queried batch downloads that must then be uploaded into PeopleSoft. The timing of downloads and uploads and issues with PeopleSoft occasionally not pulling all data in the Excel files lead to the potential for material differences that require manual reconciliation. This increases the chances of material error and differences between the data reflected in each system. In the current year, the timing of when student receivables were queried and uploaded from Banner to PeopleSoft resulted in a cut-off issue where payments received subsequent to year-end were reflected as of June 30, 2016.

*Context:*

The University did not have adequately designed internal controls over system interfaces that were operating effectively.

*Recommendation:*

The University should consider the effectiveness of this interface as well as the applicable controls in place. In order to validate that data is complete and accurate, management should employ controls such as comparing hash totals, control totals, record counts and header records each time that data is shared between the two systems. Employing such controls would reduce management's reliance on manual controls and specific individuals to identify errors and differences.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

IT and the Controller have partnered to automate to the interface between Banner and PeopleSoft. A tool is currently being implemented to automate the data between Banner and PeopleSoft. The implementation will be completed in fiscal 2017. After the tool has been implanted, third party consultants for Banner and PeopleSoft will be used to write the code to move data from Banner through the interface and into PeopleSoft by the end of the calendar year 2017. In the interim, the Controller's Office is working with IT to obtain a better understanding of the manual feeds into PeopleSoft so that the data can be validated and reconciled on a timelier basis.

**FINDING 2016-010**

*Criteria or Specific Requirement:*

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit procedures, we identified several invoices that were expensed in the improper period.

*Background:*

As a result of our expenses testing, we identified several invoices that should have been expensed during previous fiscal years that were not expensed until the 2016 fiscal year. The total extrapolated error for the year ended June 30, 2016 was approximately $8 million. The invoices that we identified had invoice dates throughout fiscal year 2015, and were expensed at various dates throughout fiscal year 2016, so there was no specifically identified cut-off determination.

Additionally, we identified an extrapolated error of approximately $7.5 million in invoices that should have been expensed in fiscal year 2017 but were expensed in the year ended June 30, 2016. This includes invoices received near the end of the 2016 fiscal year related to services not yet received.

*Context:*

The University did not have adequately designed internal controls over expense cut-off that were operating effectively.

*Recommendation:*

We recommend that management consider alternative methods to the collection of invoices from the various departments on campus (including central depositories), as invoices appear to not always be submitted timely.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Management is in the process of increasing the staffing of the Budget Office to add resources to assist in the review of financial information from the monthly activity of the various departments on campus. Also, a detailed procure to pay project has been completed in fiscal 2017 to improve the process of procuring and paying for goods and services. The Controller and Budget Office have undertaken a project to revamp commitment control in the accounting system to provide more reliable information on the commitments of the various departments. The design is expected to be completed by the end of fiscal 2017 and implementation during fiscal 2018. Finally, internal audit has started a financial stewardship project to be completed in fiscal 2017 to expose the departments and individuals responsible for the financial operations of the expectations of their respective role in the organization.

**FINDING 2016-011**

*Criteria or Specific Requirement:*

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. During our audit procedures, we noted single points of failure related to the University's information systems.

*Background:*

In the prior year, we noted that the change management process over PeopleSoft Financials/HCM, Sorian Clinicals, and NVision could be improved. In the current year, due to the changes in ETS, we noted certain areas where only a single person was able to respond to our inquiries. Where individual people represent a single point of failure, the University risks not being able to deliver services in that individual's absence. Note that per our discussions with ETS management, this issue was not specifically remediated during the current year.

*Context:*

The University did not have adequately designed internal controls over expense cut-off that were operating effectively.

*Recommendation:*

We recommend management undertake an effort to align the priorities of its Enterprise Technology Systems ("IT") department with those of the University and Hospital by minimizing single points of failure where possible.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

IT has taken a multi-prong approach to minimize single points of failure. IT has undergone a re-organization to better consolidate and align competencies under specific operations manager oversight, thus providing direct knowledge of skills, information and activities unique to an individual within the department. IT has also begun cross-training within the newly aligned teams to eliminate the pockets of information or skill isolation and contracted with outside vendors who have the knowledge and skills similar to the single points of failure, either as an augmentation to our own staff or as direct replacement of our staff.

## Section III – Federal Awards Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by the Uniform Guidance, Section .516(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs and material abuse). Where practical, findings should be organized by federal agency or pass-through entity.

**FINDING 2016-012**

*Federal Program Information:*

Student Financial Assistance Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*N. Special Tests and Provisions - Verification* - An institution may participate under an ED-approved Quality Assurance Program ("QA Program") that exempts it from verifying those applicants selected by the central processor, provided that the applicants do not meet the institution's own verification selection criteria. Per the Federal Student Aid Handbook, institutions participating in the QA Program develop a quality improvement approach to their administration of the Federal Student Aid programs. They design a verification program that fits their population, and they have flexibility regarding certain verification regulations. To help with the design of verification criteria, QA Program schools must use the IA Tool to test the criteria's effectiveness. The tool shows which application elements changed when verified and reveals the impact that those changes have on the Expected Family Contribution ("EFC").

An institution shall require an applicant selected for verification to submit acceptable documentation that will verify or update the following information used to determine the applicant's EFC: adjusted gross income, U.S. income tax paid, aggregate number of family members in the household, number of family members in the household who are enrolled in as at least half-time students in postsecondary educational institutions if that number is greater than one, and untaxed income subject to U.S. income tax reporting requirements in the base year which is included on the tax return form, excluding information contained on schedules appended to such forms. Untaxed income and benefits include: Social Security benefits if the institution has reason to believe that those benefits were received and were not reported or were not correctly reported; child support if the institution has reason to believe child support was received; U.S. income tax deductions for a payment made to an individual retirement account or Keough account; interest on tax-free bond; foreign income excluded from U.S. income taxation if the institution has reason to believe that foreign income was received; and all other untaxed income subject to U.S. income tax reporting requirements in the base year included on the tax return form, excluding information contained on schedules appended to such forms. (34 CFR 668.56).

*Condition:*

The University is a participant in the Department of Education's QA Program. Under the QA Program, the University is required to design and implement a comprehensive program to verify student financial aid application data based on analysis of institution specific criteria. Although the University appropriately established the selection criteria, they did not verify all students who met this established criteria for verification. For certain students who were properly selected for verification, the information required to be verified either did not match the underlying supporting documentation (including tax information recorded on the students' W-2) or could not be provided by the University. Additionally, certain students requiring verification were disbursed federal aid prior to the completion of verification procedures.

*Questioned Costs*:

None.

*Context*:

- For 8 of 25 students selected for testing, while the students met the University's criteria for verification they were not properly verified.
- For 17 of 25 students selected for verification testing, the University did not perform appropriate verification procedures.
- For 4 of 25 students selected for verification testing, federal aid was disbursed prior to the University's completion of verification procedures.

*Effect*:

Federal awards were not disbursed in accordance with federal regulations and the University was not in compliance with the verification compliance requirements.

C*ause:*

Lack of sufficient administrative oversight in regards to QA Program verification procedures.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-011 in the 2015 report.

*Recommendation:*

We recommend that the University establish written policies and procedures to ensure that the appropriate verification procedures are performed for all students who meet the University's selection criteria for verification unless excluded by the federal regulations.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The University acknowledges this finding and notes that the Quality Assurance (QA) Verification Program will end with the 2016–2017 award year on June 30, 2017.

Moving forward, all colleges and universities must verify applications selected by the CPS of students who will receive or have received subsidized student financial assistance. This includes students who are eligible for subsidized Title IV aid for which eligibility is determined by the EFC (i.e., the Pell Grant, Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), Perkins Loan, and Direct Subsidized Loan programs).

The Howard University written Financial Aid Policies and Procedures will be updated by the Financial Aid Department, in accordance with the FSA Handbook and standard Verification requirements by May 15, 2017.

**FINDING 2016-013**

*Federal Program Information:*

Student Financial Assistance Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*N. Special Tests and Provisions –Disbursements To or On Behalf of Students* - If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the National Student Loan Data System ("NSLDS") Student Transfer Monitoring Process. Under this process, a school informs NSLDS about its transfer students. NSLDS will "monitor" those students on the school's "inform" list and "alert" the school of any relevant financial aid history changes. A school must wait 7 days after it "informs" NSLDS about a transfer student before disbursing Title IV aid to that student (34 CFR section 668.19).

*Condition:*

For 24 students selected for transfer testing, the University was unable to provide documentation to show management's request of the students' financial aid history prior to disbursing Title IV funds. The transfer students were also not added to the NSLDS alert list as required.

*Questioned Costs:*

None.

*Context:*

24 of 24 transfer students selected for testing received federal aid but were not added to the NSLDS alert list as required.

*Effect:*

Federal awards were not disbursed in accordance with federal regulations.

*Cause:*

Lack of sufficient administrative oversight in regards to transfer monitoring procedures.

*Repeat Finding*:

No similar findings noted in the prior year.

*Recommendation:*

We recommend that the University implement policies to ensure the University adds all transfer students to the NSLDS alert list.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The University acknowledges this finding and is currently in the process of hiring additional staff to fill in some of the gaps and address the lack of transfer monitoring, administrative oversight. The additional staff should be hired by June 5, 2017.

The recommendation is currently being implemented to add all transfer students to the NSLDS Alerts.

**FINDING 2016-014**

*Federal Program Information:*

Federal Pell Grant Program (CFDA #84.063)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*L. Reporting – Common Origination and Disbursement ("COD") System* – All institutions receiving Pell grants submit Pell payment data to the Department of Education through the COD System. Institutions must report student payment data no earlier than 7 days before and no later than 15 days after the institution makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

*Condition:*

The University did not submit Federal Pell Grant Program payment data through the COD website within the required timeframes.

*Questioned Costs:*

None.

*Context:*

For 12 of 25 students selected for Federal Pell Grant Program disbursement testing, the University did not report the disbursements to the COD system within the required time frame.

*Effect:*

The University is not in compliance with COD reporting requirements. Failure to submit and update COD records in a timely manner could result in improper awards of student funds.

*Cause:*

Lack of sufficient administrative oversight resulted in the untimely reporting of certain Federal Pell Grant Program payment data.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-012 in the 2015 report.

*Recommendation:*

We recommend the University ensure that disbursement dates are entered into the COD website no earlier than 7 days before and no later than 15 days after disbursement as required by federal regulations.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The University agrees with this finding and is currently in the process of hiring additional staff to fill in some of the gaps and address the lack of administrative oversight as it relates to untimely reporting of Pell Grant payments in COD. The additional staff should be hired by June 5, 2017.

Once additional staffing is in place, the University will implement the recommendation to schedule weekly Pell Grant payment updates in COD.

**FINDING 2016-015**

Student Financial Assistance Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*N. Special Tests and Provisions – Enrollment Reporting* - Institutions that disburse student financial assistance loan program funds are required to communicate changes in student status via the NSLDS. Additionally, unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.

*Condition:*

The University did not submit status change notification or failed to submit timely notification to the NSLDS website for certain students who graduated, withdrew or had a change in their enrollment status (full time, half time or less than half time) during the year.

*Questioned Costs:*

None.

*Context:*

For 5 out of 40 students sampled whose status changed during the fiscal year, the University did not submit any status change notification or failed to submit timely notification to the NSLDS website.

*Effect:*

The University is not in compliance with enrollment reporting requirements. Failure to promptly report accurate and timely changes in enrollment status may adversely impact the repayment status for student loan borrowers.

*Cause:*

Lack of sufficient administrative oversight with respect to enrollment reporting requirements.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-013 in the 2015 report.

*Recommendation:*

We recommend that the University properly follow its policies and procedures over the applicable compliance requirements of the Enrollment Reporting requirement to ensure that all status changes are submitted to the NSLDS website within the required timeframe.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The University agrees with this finding and notes that the student's total withdrawal was accurately recorded by the University and reported to our third-party servicer (the National Student Clearinghouse) but the change was not uploaded by the third-party servicer until the next scheduled update.

The University is now using its own reporting as recommended by ED however, Student Financial Aid will continue to troubleshoot and monitor this issue.

**FINDING 2016-016**

*Federal Program Information:*

Student Financial Assistance Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*N. Special Tests and Provisions – Return of Title IV Funds:* The amount of earned Title IV grant or loan assistance is calculated by determining the percentage of Title IV grant or loan assistance that has been earned by the student and applying that percentage to the total amount of Title IV grant or loan assistance that was or could have been disbursed to the student for the payment period or period of enrollment as of the student's withdrawal date.

Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to Department of Education or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew. Returns by check are late if the check is issued more than 45 days after the institution determined the student withdrew or the date on the canceled check shows the check was endorsed more than 60 days after the date the institution determined that the student withdrew (34 CFR section 668.173(b)).

*Condition:*

The University did not prepare certain students' refund calculations properly and did not refund Title IV funds within the required time frame.

*Questioned Costs:*

None.

*Context:*

- For 5 of 9 students selected for refund calculation testing, the required refund was not made to the Department of Education within the required time frame.

- For 4 of 9 students selected for refund calculation testing, the University improperly prepared the refund calculation when calculating return amounts.

*Effect:*

The University was not compliant with the Return of Title IV Funds compliance requirements.

*Cause:*

Lack of sufficient administrative oversight with respect to return of Title IV funds requirements.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-014 in the 2015 report.

*Recommendation:*

We recommend that the University enhance its procedures surrounding the disbursement of federal student aid to ensure compliance with the return of Title IV Funds requirements.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

The University agrees with this finding and has hired additional staff to re-institute an internal management review process for this requirement. Additionally, the staff are undergoing training to ensure that the calculations are done accurately and to ensure that multiple staff are able to perform this task. The training will be completed by June 30, 2017.

**FINDING 2016-017**

*Federal Program Information:*

Research and Development Cluster (various CFDA #'s), USAID Foreign Assistance for Programs Overseas (CFDA #98.001), Charles B. Rangel International Affairs Program (CFDA #19.020) and Highway Planning and Construction Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*B. Allowable Costs/Cost Principles (Effort Certification)* – The Uniform Guidance outlines the guidelines governing effort certification and the verification of salary distributions. Specifically, charges may be made initially on the basis of estimates made before the services are performed, but the institution is required to subsequently confirm that the labor effort costs charged to an award reasonably represent the actual labor effort. These signatures may all be on the same document. The effort certifications will be prepared each academic term, but no less frequently than every six months.

*Condition:*

We noted that for certain payroll transactions the effort certification was not completed timely which is not in compliance with the Uniform Guidance requirements and the University's internal policy.

*Questioned Costs:*

None.

*Context:*

- For 23 of 28 Research and Development Cluster effort certifications selected for testing, the effort certification was not prepared timely.

- For 5 of 7 USAID Foreign Assistance for Programs Overseas effort certifications selected for testing, the effort certification was not prepared timely.

- For 6 of 10 Charles B. Rangel International Affairs Program effort certifications selected for testing, the effort certification was not prepared timely.

- For 1 of 3 Highway Planning and Construction Cluster effort certifications selected for testing, the effort certification was not prepared timely.

*Effect:*

The University is not in compliance with the Uniform Guidance and its own internal policies regarding the timely and complete preparation of effort certification.

*Cause:*

Lack of effective internal controls and administrative oversight in regards to effort certification preparation and submission.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-015 in the 2015 report.

*Recommendation:*

We recommend that the University ensure established policies and procedures are followed in order to comply with the requirements of the Uniform Guidance and to meet the accountability requirements as established in federal regulations.  This includes ensuring that all effort certifications are compiled on a bi-annual basis and that payroll expenses recorded in the general ledger are reconciled to what is reported on the effort certificate to ensure completeness and accuracy of the effort calculated and used in evaluation by the responsible individuals.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Howard University's Grants and Contracts Department will implement and update effort certification policies and procedures to ensure effort certifications are approved in a timely manner as of June 30, 2017.  Also, Grants and Contracts will release further enhancements of the effort certification system to update PIs and designees with regards to the status of the effort certification submissions by May 30, 2017.  Earning reports will be available for further confirmations of effort percentages by June 30, 2017.

**FINDING 2016-018**

*Federal Program Information:*

Research and Development Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*I. Procurement and Suspension and Debarment* – The Uniform Guidance require recipients of federal awards to have adequate procedures and controls in place to ensure that the procurement transactions are properly documented in the entity's files, provide full and open competition supported by a cost or price analysis, provide a vendor debarment or suspension certification, provide for retention of files, and that supporting documentation corroborates compliance with these requirements. All procurement transactions are required to be conducted in a manner to provide, to the maximum extent practical, open and free competition. Additionally, procurement records and files for purchases in excess of the small purchase threshold ($25,000) shall include a) a basis for contractor selection, b) justification for the lack of competition when competitive bids or offers are not obtained, and c) a basis for award cost or price. Organizations are also required to be alert to any organizational conflicts of interest (2 CFR 215.40 – 215.48).

*Condition:*

The University's purchasing policy and procedures are not being appropriately followed in all cases with respect to the procurement of goods and services funded by federal awards. As a result, certain competitive bidding documentation was not retained and certain sole source documentation could not be provided or did not appear to give adequate reasoning for the lack of a competitive bidding process.

*Questioned Costs:*

None.

*Context:*

The University is not properly following their policies and procedures surrounding procurement of goods and expenditures using federal awards. We noted the following during our testing:

- For 1 of the 2 procurement transactions selected for testing, the University was unable to provide adequate sole source or competitive bidding documentation.

*Effect:*

Failure to follow formal policies and procedures as well as evidence and documentation of the competitive bidding process or justification for the lack of competition results in noncompliance with the Procurement requirements.

*Cause:*

Inadequate monitoring of policies and procedures and lack of effective administrative oversight over Procurement requirements.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-018 in the 2015 report.

*Recommendation:*

We recommend that the University enforce the policies and procedures established to ensure that its personnel, especially those responsible for making procurement decisions, are aware of and comply with all federal purchasing rules and regulations.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Howard University's Procurement Department will be responsible for adopting, updating and implementing policies and procedures regarding appropriate bidding documentation to ensure compliance with federal regulations by June 30, 2017. The Procurement Department will provide training to PIs, designees and staff to ensure the research community is abreast of current federal purchasing regulations by June 30, 2017.

**FINDING 2016-019**

*Federal Program Information:*

Research and Development Cluster (various CFDA #'s) and USAID Foreign Assistance for Programs Overseas (CFDA #98.001)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*L. Reporting* - The University is required to comply with the requirements of Reporting associated with its federal awards. According to the Uniform Guidance, the University may be required to submit performance reports at least annually but not more frequently than quarterly. Additionally, if required based on the terms of the grant agreement, the University should submit financial reports that are complete, accurate, and prepared in accordance with the required accounting basis. Amounts reported should agree to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

*Condition:*

The University is not in compliance with certain requirements of Reporting. Certain progress and financial reports were not submitted in a timely manner.

*Questioned Costs:*

None.

*Context:*

We noted the following in during our testing:

- For 1 of 14 Research and Development Cluster reports selected for testing, the progress and/or financial report was not submitted timely to the respective awarding agency.

- For 4 of 9 USAID Foreign Assistance for Programs Overseas reports selected for testing, the progress and/or financial report was not submitted timely to the respective awarding agency.

*Effect:*

The University is not properly following its policies and procedures in place to ensure that compliance is maintained with respect to the Reporting compliance requirements and certain progress and financial reports were not submitted timely.

*Cause:*

Inadequate monitoring of policies and procedures and administrative oversight with respect to reporting requirements.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-019 in the 2015 report.

*Recommendation:*

We recommend that the University properly follow its policies and procedures over the applicable compliance requirements of the Reporting requirement to ensure that all required reporting requirements are met in accordance with federal regulations as well as the grant agreements.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Howard University's Grants and Contracts Department in conjunction with the Provost Office will develop reporting requirements in accordance with federal regulations by June 30, 2017. Grants and Contracts will also implement milestones and deliverables within the PeopleSoft Grant Module to alert Principal Investigators, designees and financial staff when required reporting is due ensuring progress and financial reports are submitted timely by June 30, 2017.

## FINDING 2016-020

*Federal Program Information:*

Research and Development Cluster (various CFDA #'s)

*Criteria or Specific Requirement (Including Statutory, Regulatory or Other Citation):*

*N. Special Tests and Provisions (Publications)* - Per grant agreements between the University and multiple federal agencies, all publications (including conference presentations, promotional material, agendas and internet sites) that result from federal grant support by the grantors must include an acknowledgement of support and a disclaimer that the contents are the responsibility of the authors and not of the grantors.

*Condition:*

The University did not properly include the appropriate acknowledgement of support and a disclaimer of responsibility in certain publications selected for testing.

*Questioned Costs:*

None.

*Context:*

We noted the following in regards to publications:

- For 4 of 30 Research and Development Cluster publications selected for testing, the publication did not include the appropriate acknowledgement of support or disclaimer of responsibility.

*Effect:*

The University is not properly following its policies and procedures in place to ensure that compliance is maintained with respect to the compliance requirements associated with published information resulting from federal grant support.

*Cause:*

Inadequate monitoring of policies and procedures and administrative oversight with respect to Special Tests and Provisions requirements.

*Repeat Finding*:

This is a repeat finding from prior year. This was reported as finding 2015-020 in the 2015 report.

*Recommendation:*

We recommend that the University strengthen its policies and procedures over the monitoring of Special Tests and Provisions within grant agreements.

*Views of Responsible Officials and Planned Corrective Actions and Conclusion:*

Howard University's Provost Office and Grants and Contracts will implement policies and procedures to ensure that federal publications will include appropriate disclaimers acknowledging the responsible federal agencies by June 30, 2017. A publication depository will be maintained and updated by the Provost Office and Grants and Contracts to ensure publications include disclaimers and appropriate recognitions by June 30, 2017. A status report will also be developed by Grants and Contracts to report publication status on a quarterly basis.

**FINDING 2015-001**

*Type of Finding:*

Financial statement finding.

*Condition:*

In the prior year, we noted that the University experienced issues related to billing and accounting practices for the Faculty Practice Plan (FPP). In the current year, Office of the Controller personnel identified $11.7 million of untimely filing adjustments through September 2015 that were for the year ended June 30, 2015. The majority of these adjustments were due to claims that were either not rebilled or appealed timely, or there is a lack of evidence that an appeal or rebill was ever processed (approximately 64% of the claims included in the final adjustment). The impact of these adjustments was to effectively offset the related receivables as there was no longer any expectation of collectability. The final net impact was a $5.7 million decrease to FPP revenue as of June 30, 2015. In our review of the monthly adjustments file, we noted that beginning in April 2015 and continuing through October 2015, insurance adjustments for untimely filings grew in dollars and number of adjustments throughout that time period. While the initial increases in the adjustments associated with these claims were not overly significant, their presence and trending growth should have prompted further discussion and potential accounting actions.

FPP management was aware that there was a strong likelihood that some of the receivables were ultimately not collectible because appeals deadlines were missed as early as April 2015. However, this information was not discussed and vetted with Office of the Controller personnel at that time, in order to determine if any additional reserves against FPP accounts receivables were necessary for the quarter ended March 31, 2015.

In addition, in the current year we noted that the FPP receivables subledger had a difference of $1.1 million when compared to the general ledger that had not been adequately reconciled. Ultimately, this difference was attributable to the prior year charge lag entry that was not properly recorded to the subledger.

*Status of Finding as of June 30, 2016:*

No similar findings noted.

**FINDING 2015-002**

*Type of Finding:*

Financial statement finding.

*Condition:*

As a result of our expenses testing, we identified several invoices that should have been expensed during previous fiscal years that were not expensed until the 2015 fiscal year. The total extrapolated error for the year ended June 30, 2015 was $4.8 million. The invoices that we identified had invoice dates throughout fiscal year 2014, and were expensed at various dates throughout fiscal year 2015, so there was no specifically identified cut-off determination. This issue was also noted in the prior year.

Additionally, we identified an extrapolated error of $1.7 million in invoices that should have been expensed in fiscal year 2016 but were expensed in the year ended June 30, 2015. This includes invoices received near the end of the 2015 fiscal year related to work not yet performed.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-010.

**FINDING 2015-003**

*Type of Finding:*

Financial statement finding.

*Condition:*

Similar to issues noted in the prior year, during our current year audit procedures we noted several issues related to the accuracy of the underlying information that supported the consolidated financial statements:

- The information provided by Hospital management is not timely and was inaccurate at various points in the financial statements reporting process. Most notably, the cash flows provided by Hospital management for the consolidated Statement of Cash Flows were arithmetically incorrect by $12 million, suggesting that management review controls are not operating appropriately. In addition, Hospital management was unable to provide documentation that satisfies the requirements of accounting guidance to support the classification of material restructuring expenses in the consolidated Statement of Activities.

- Updates to investments balances based on audit confirmations were not appropriately updated in the consolidated Statement of Cash Flows, and investments activity in the cash flows did not agree to footnote disclosures.

- Additionally, we note that the flow of information that may impact financial processes can be improved. As an example, there was a change in the third-party service provider for the University's loans receivable processor during fiscal year 2015, but this information was not shared with the Office of the Controller. As a result, the University did not obtain and evaluate the information processing control environment for the third party provider in a timely manner. An additional example is that costs that were incurred to abate asbestos in prior years were not communicated to the Office of the Controller. As a result, those costs were not charged against the liability. Further, the liability has not been updated with a full engineering estimate of the costs to abate any remaining asbestos.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-007.

**FINDING 2015-004**

*Type of Finding:*

Financial statement finding.

*Condition:*

Although much of the responses to our prior management letter comments were delayed until later in fiscal year 2015, we have begun to see management developing control activities that will eventually enable Enterprise Technology Services (ETS) to deliver stable and reliable services. However, there are still several issues remaining that should be addressed including:

- As noted in prior years, the University continues to lack a formal disaster recovery plan (DRP) that categorizes potential levels of impact (e.g., usually based on outage duration/loss of operations), defines roles and responsibilities, and prescribes the respective response procedures for all University business units (including the Hospital). As also noted in the prior year, formal backup and recovery procedures were still not in place during fiscal year 2015. The University has recently suffered several breakdowns in its delivery of IT services including, but not limited to, wireless network coverage gaps, network failures, interruptions to customer service, and systems outages in both Banner and PeopleSoft. The continued lack of a disaster recovery plan and formal policies and procedures that address business interruption and backup procedures negatively impacted the University's ability to quickly and nimbly respond with appropriate IT solutions.

- In the prior year we noted issues related to access rights and user administration within certain applications that are related to the financial statement close process. Based on our current year procedures, we noted that 4 employees had posting access to PeopleSoft although this type of access was not a part of their job duties.

- In the prior year, we noted that the change management process over PeopleSoft Financials/HCM, Sorian Clinicals, and InVision could be improved. In the current year, due to the changes in ETS, we noted certain areas where only a single person was able to respond to our inquiries. Where individual people represent a single point of failure, the University risks not being able to deliver services in that individual's absence.

- University's loans receivable processor during fiscal year 2015, but this information was not shared with the Office of the Controller. As a result, the University did not obtain and evaluate the information processing control environment for the third party provider in a timely manner. An additional example is that costs that were incurred to abate asbestos in prior years were not communicated to the Office of the Controller. As a result, those costs were not charged against the liability. Further, the liability has not been updated with a full engineering estimate of the costs to abate any remaining asbestos.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-002.

**FINDING 2015-005**

*Type of Finding:*

Financial statement finding.

*Condition:*

Patient accounts receivable valuation represents one of the most significant estimates for healthcare entities for financial reporting purposes. The entire revenue cycle process has an impact in the development of this estimate. The Hospital establishes allowances for contractual adjustments and uncollectable accounts for patient accounts receivable based upon historical collection trends for each of its major payor sources and write-off experience. Contractual allowances are based on utilization of twelve months of historical adjudicated claims payment information and existing contracts with third party payors experience with more weight given to more recent months' performance. Uncollectable account allowance is estimated based on the value of accounts aged greater than six months. During fiscal 2015, Paladin (contract management for the Hospital) implemented process improvements in the revenue cycle resulting in improved revenue cycle processes and cash collections. During our audit procedures over patient accounts receivable and related reserves for bad debts and contractual allowances, we noted the following:

- A retrospective review of cash collections and write-offs related to fiscal year 2014 and prior periods that took place in fiscal year 2015 indicated that the allowances for contractual adjustments and uncollectible accounts at June 30, 2014 were overstated by approximately $7 million. No adjustment was made to reflect this favorable development.

- At June 30, 2015, management recorded non-specific allowance reserves of approximately $3 million to provide for third party payor audit recoveries and potential unrecorded liabilities in addition to the average historical collection experience by aging/payor classification. There was not a specific analysis to support this reserve.

- At June 30, 2015, credit balances related to patient accounts were approximately $12 million which was an increase of 45% over prior year, most of which had been classified as refunds due to patients and third party payors in accounts payable. Management, bringing these issues forward and noting that the issues contributing to this have persisted for several years, requested us to work with them to correctly classify these amounts. Management provided information that we confirmed through testing that a significant portion of these credit balances actually represented cash posting errors, account adjustments, etc. We determined that approximately $3 million of these credit balances represented overpayments that should be recorded as a third party payor or patient refund liability.

- At June 30, 2015, the AR Unapplied Cash account had a debit balance of $1 million. This account should normally have a credit balance representing timing of unposted cash receipts at the end of the period. Upon further investigation and discussion with management, this amount represented patient account adjustments that should have been recorded in the Statement of Operations.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-007.

**FINDING 2015-006**

*Type of Finding:*

Financial statement finding.

*Condition:*

The internal controls over the financial statement close process for preparing year-end financial statements include:

- Accounting for all entries and closing of the general ledger trial balance;
- Controls to ensure timely review of all account reconciliations; and
- Controls over the review of the year-end consolidated financial statements.

During the course of our audit of the Hospital's standalone financial statements, we noted several control weaknesses in the monthly and year-end financial reporting process. These control weaknesses caused significant delays in the year-end financial reporting process and resulted in a significant number of audit adjustments recorded with a cumulative effect of approximately $11 million. In addition, there were approximately $1.8 million in uncorrected misstatements. The following items represent the significant matters noted:

- Timely and accurate preparation of monthly reconciliations: In general, account reconciliations are being performed by the Hospital on a monthly basis. However, we noted for some account reconciliations that research and resolution of certain reconciling items is not being performed timely. Certain areas required additional review and resulted in significant audit adjustments which included; patient accounts receivable, estimated third-party payor liabilities, inventory, accounts payable and capital lease payable.

- Financial statement reporting: The year-end financial statements that management prepared and presented during the audit contained a number of errors, inconsistencies, and disclosure omissions. The Hospital does not have a well- controlled process that ensures the financial statements are complete, accurate and disclosures in conformity with generally accepted accounting principles (GAAP).

Significant changes in executive and financial management took place during fiscal year 2015 with further significant turnover in executive management in late April of 2015 which included the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Nursing Officer. The new management team had discussions with BDO about many of the weaknesses noted, but were unable to effect change due to the short timeframe prior to year-end closing and the start of the audit.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-005.

**FINDING 2015-007**

*Type of Finding:*

Financial statement finding.

*Condition:*

In the prior year, we noted that the University's Accounts Payable balance included a number of significantly aged items that appeared to have been carried forward over multiple prior periods, and we recommended that management investigate such amounts in order to determine their continued accuracy. Management performed research over 25 vendors with aged balances, and was able to confirm and determine that $2.7 million could be written off.

*Status of Finding as of June 30, 2016:*

No similar findings noted.

**FINDING 2015-008**

*Type of Finding:*

Financial statement finding.

*Condition:*

Subsequent to the current year end, we noted that the E-PAR on-boarding process was not appropriately followed. As a result, there were several students that were not paid timely. These students were ultimately paid through Accounts Payable instead of through the payroll process. We initially noted this same matter in our 2013 management letter. While this occurrence is not as severe or delayed as what was noted in 2013, it is concerning that the revised controls and procedures that were put in place beginning April 1, 2014 were not entirely effective in this situation.

In addition, as previously reported by the Internal Audit function, in the current year certain key payroll controls were not functioning appropriately in Kronos and Lawson. As a result, employees were able to record more than 24 hours of work in one day. In addition, employees were able to record sick hours and vacation hours on days where 8 hours of work time or more was already recorded in order to generate overtime pay. The total potential loss to the University was less than $800k.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-001.

**FINDING 2015-009**

*Type of Finding:*

Financial statement finding.

*Condition:*

During the course of our audits we evaluated the “interface” between the Banner and PeopleSoft systems that shares information related to student receivables, revenues, and other related transactions. As a result of our evaluation, we determined that the process is only partly automated, and the controls over the completion and accuracy of the data shared between the two systems are more manual. This increases the chances of material error and differences between the data reflected in each system, as we noted during certain periods testing (including our quarterly review procedures).

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-009.

**FINDING 2015-010**

*Type of Finding:*

Financial statement finding.

*Condition:*

The Hospital does not maintain perpetual inventory records for its entire inventory and relies on its year-end physical inventory count to establish year-end inventory balances. During our testing procedures, we noted the following deficiencies related to inventory:

- No procedure was established for review of reconciliations between extended physical counts and general ledger control accounts. In addition, the final inventory count had approximately two hundred inventory items with no price associated. As a result, these items were not properly accounted for in the general ledger.

- There is no formal review of authorized personnel who should have access to the inventory system (Omnicell). There are instances when nurses are not removed from the network timely in accordance with their separation from the organization leaving their access active for a period of time after separation.

- There is no true approval of inventory supply requests. Often, employees go to central storage and simply request an item without materials management keeping an adequate record of the person who ordered the item. This lack of control and documentation provides an opportunity for misappropriation of assets.

*Status of Finding as of June 30, 2016:*

No similar findings noted.

**FINDING 2015-011**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Student Financial Assistance Cluster (various CFDA #'s)

*Condition:*

The University is a participant in the Department of Education's QA Program. Under the QA Program, the University is required to design and implement a comprehensive program to verify student financial aid application data based on analysis of institution specific criteria. Although the University appropriately established the selection criteria, they did not verify all students who met this established criteria for verification.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-012.

**FINDING 2015-012**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Federal Pell Grant Program (CFDA #84.063)

*Condition:*

The University did not submit Federal Pell Grant Program payment data through the COD website within the required timeframes.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-014.

**FINDING 2015-013**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Student Financial Assistance Cluster (various CFDA #'s)

*Condition:*

For 10 of 40 students selected for testing who graduated, withdrew or had a change in their enrollment status (full time, half time or less than half time) during the year, the University did not submit status change notification or failed to submit timely notification to the NSLDS website.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-015.

**FINDING 2015-014**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Student Financial Assistance Cluster (various CFDA #'s)

*Condition:*

For 1 student selected for testing, the University did not refund Title IV funds within the required time frame.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-016.

**FINDING 2015-015**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Research and Development Cluster (various CFDA #'s), Excellence in Health Professional Education Endowment (CFDA #93.375), Global AIDS Programs (CFDA #96.067), USAID Foreign Assistance for Programs Overseas (CFDA #98.001), HIV and Ryan White Awards (various CFDA #'s) and Charles B. Rangel International Affairs Program (CFDA #19.020)

*Condition:*

We noted that for certain payroll transactions the effort certification was not completed timely or was not properly prepared and approved, which is not in compliance with the OMB Circular A-21 requirements and the University's internal policy.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-017.

**FINDING 2015-016**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Research and Development Cluster (various CFDA #'s)

*Condition:*

The University was unable to provide documentation to support that the appropriate property records for federally funded equipment is being maintained.

*Status of Finding as of June 30, 2016:*

No similar findings noted.

**FINDING 2015-017**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Charles B. Rangel International Affairs Program (CFDA #19.020)

*Condition:*

The University did not comply with the requirements of Allowable Costs/Cost Principles.

*Status of Finding as of June 30, 2016:*

No similar findings noted.

**FINDING 2015-018**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Research and Development Cluster (various CFDA #'s)

*Condition:*

The University's purchasing policy and procedures are not being appropriately followed in all cases with respect to the procurement of goods and services funded by federal awards. As a result, certain competitive bidding documentation was not retained and certain sole source documentation could not be provided or did not appear to give adequate reasoning for the lack of a competitive bidding process.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-018.

**FINDING 2015-019**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Research and Development Cluster (various CFDA #'s), Matching Endowment (CFDA #84.000), USAID Foreign Assistance for Programs Overseas (CFDA #98.001), Ryan White Awards (various CFDA #'s) and Global AIDS Programs (CFDA #96.067)

*Condition:*

The University is not in compliance with certain requirements of Reporting. Certain progress and financial reports were either not submitted or not submitted in a timely manner. It was also noted that certain financial information submitted to funding agencies within these reports did not agree to the amounts per the general ledger detail and reconciliations from these reports could not be provided.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-019.

**FINDING 2015-020**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Research and Development Cluster (various CFDA #'s) and Excellence in Health Professional Education Endowment (CFDA #93.375)

*Condition:*

The University did not properly include the appropriate acknowledgement of support and a disclaimer of responsibility in certain publications selected for testing.

*Status of Finding as of June 30, 2016:*

This finding was not fully remediated as of June 30, 2016 and is part of finding 2016-020.

**FINDING 2015-021**

*Type of Finding:*

Federal award finding.

*Federal Award Information:*

Research and Development Cluster (various CFDA #'s), USAID Foreign Assistance for Programs Overseas (CFDA #98.001) and Charles B. Rangel International Affairs Program (CFDA #19.020)

*Condition:*

During our audit procedures, we noted that the University does not properly monitor international travel charged to federal awards. Information regarding international travel is maintained by each respective principal investigator as opposed to being monitored collectively by an individual within the Grants and Contracts Department. This not only makes it difficult to determine that international travel is in accordance with the requirements of the Fly America Act prior to the purchase of airline tickets, but also affects the accuracy of information that is ultimately reported to the respective federal agency. Additionally, we noted that certain international travel requisitions were not approved prior to purchase.

*Status of Finding as of June 30, 2016:*

No similar findings noted.