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HOWARD

UNIVERSITY

The Howard University

Consolidated Financial Statements

For Fiscal Years Ended June 30, 2019 and 2018

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OFFICE OF THE SENIOR VICE PRESIDENT
CHIEF FINANCIAL OFFICER AND TREASURER

Report of Treasurer on Consolidated Financial Statements

The administration of The Howard University is responsible for the preparation, accuracy, integrity and objectivity of the consolidated financial statements contained herein. Such consolidated 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 consolidated 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, 2019, as described in Note 12 of the accompanying consolidated financial statements.

Michael J. Masch

Senior Vice President, Chief Financial Officer and Treasurer

John D. Gordon, Jr. MS, CPA, CGMA

Controller and Chief Accounting Officer

December 23, 2019



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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, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 financial audits contained in *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 consolidated financial position of the University as of June 30, 2019 and 2018, 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.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, in the year ended June 30, 2019, the University adopted Accounting Standards Updates ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), and ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14").

In addition, as discussed in Note 1 to the consolidated financial statements, in the year ended June 30, 2019, the University adopted a change in accounting principle with respect to the recognition of contributed works of art and historical treasures. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited The Howard University's 2018 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated December 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

BDO USA, LLP

December 23, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in thousands)</i>	June 30, 2019	June 30, 2018
Current Assets:		
Cash and cash equivalents	\$ 29,515	\$ 32,998
Operating investments	27,266	44,693
Deposits with trustees	2,917	1,732
Receivables, net	127,940	89,771
Inventories, prepaids and other assets	25,425	11,862
Restricted investments	34,126	49,988
Total Current Assets	247,189	231,044
Long Term Assets:		
Deposits with trustees	12,865	13,386
Receivables, net	17,611	22,607
Inventories, prepaids and other assets	214	13,667
Unexpended bond proceeds	3,104	3,117
Restricted investments	23,664	4,126
Endowment investments	692,832	688,562
Operating right of use assets	4,761	3,764
Finance right of use assets	51,525	56,085
Long-lived assets	541,698	510,261
Total Long Term Assets	1,348,274	1,315,575
Total Assets	\$ 1,595,463	\$ 1,546,619
Current Liabilities:		
Accounts payable and accrued expenses	\$ 137,741	\$ 131,804
Deferred revenue	15,862	15,710
Other liabilities	25,814	15,206
Accrued post-retirement benefits	3,066	3,842
Underfunded defined benefit pension plan	1,513	-
Reserve for self-insured liabilities	10,446	10,392
Notes payable	8,562	-
Operating lease obligations	232	211
Finance lease obligations	4,017	7,732
Bonds payable	13,213	11,200
Total Current Liabilities	220,466	196,097
Long Term Liabilities:		
Deferred revenue	-	4,495
Other liabilities	3,110	5,949
Accrued post-retirement benefits	46,055	44,599
Underfunded defined benefit pension plan	157,020	116,807
Reserve for self-insured liabilities	55,091	56,699
Operating lease obligations	4,782	3,637
Finance lease obligations	47,115	47,024
Bonds payable	384,231	397,444
Refundable advances under Federal Student Loan Program	6,517	6,333
Total Long Term Liabilities	703,921	682,987
Total Liabilities	924,387	879,084
Net Assets:		
Without donor restrictions	217,376	233,839
With donor restrictions	453,700	433,696
Total Net Assets	671,076	667,535
Total Liabilities and Net Assets	\$ 1,595,463	\$ 1,546,619

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2019 (with summarized comparative information for fiscal year ended June 30, 2018) (in thousands)	Without Donor Restrictions	With Donor Restrictions	June 30, 2019	Summarized June 30, 2018
Operating				
Revenues and reclassifications:				
Academic services:				
Tuition and fees, net	\$ 142,365	\$ -	\$ 142,365	\$ 143,631
Grants and contracts	48,791	-	48,791	53,251
Auxiliary services	32,550	-	32,550	37,445
Clinical services:				
Patient service - Hospital, net	238,161	-	238,161	207,977
Patient service - Faculty medical practice, net	27,965	-	27,965	23,047
Patient service - Dental clinic, net	2,364	-	2,364	2,049
Public support:				
Federal appropriation	232,051	3,405	235,456	229,844
Contributions	45,798	7,781	53,579	33,111
Endowment transfer	10,308	13,154	23,462	22,197
Operating investment income	984	-	984	4,541
Real Property	43,669	-	43,669	20,535
Other income	11,752	317	12,069	15,043
Total revenues	836,758	24,657	861,415	792,671
Net assets released from restrictions	8,276	(8,276)	-	-
Total revenues and reclassifications	845,034	16,381	861,415	792,671
Expenses:				
Academic and research:				
Instruction	218,158	-	218,158	180,759
Research	42,925	-	42,925	41,928
Public service	12,495	-	12,495	12,250
Academic support	53,599	-	53,599	38,610
Student services	34,089	-	34,089	34,893
Total academic and research	361,266	-	361,266	308,440
Healthcare services	280,124	-	280,124	285,658
Administrative support:				
Institutional support	164,356	-	164,356	127,477
Fundraising	4,800	-	4,800	5,084
Auxiliary enterprises	40,043	-	40,043	65,161
Total administrative support	209,199	-	209,199	197,722
Total operating expenses	850,589	-	850,589	791,820
Net insurance proceeds	30,889	-	30,889	-
Operating revenues over operating expenses	25,334	16,381	41,715	851
Non-operating				
Investment income in excess of amount designated for	22,798	20,571	43,369	59,196
Endowment transfer	(6,254)	(17,208)	(23,462)	(22,197)
Net unrealized gain in beneficial interest trust	-	260	260	367
Change in funded status of defined benefit pension plan	(49,296)	-	(49,296)	15,436
Change in obligation for post-retirement benefit plan	(9,045)	-	(9,045)	(6,746)
Change in funded status of supplemental retirement plan	-	-	-	78
(Decrease) increase in non-operating activities	(41,797)	3,623	(38,174)	46,134
Change in net assets	(16,463)	20,004	3,541	46,985
Net assets, beginning of year	233,839	433,696	667,535	620,550
Net assets, end of year	\$ 217,376	\$ 453,700	\$ 671,076	\$ 667,535

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	June 30, 2019	June 30, 2018
Cash flows from operating activities		
Change in net assets	\$ 3,541	\$ 46,985
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by/(used in) operating activities:		
Depreciation and amortization	47,167	39,814
Net Insurance proceeds	30,889	-
Bond discount amortization	205	221
Bonds issuance costs	254	255
Net realized gain on sale of investment	(56,055)	(40,056)
Unrealized loss (gain) on investments	11,810	(23,982)
Donated long-lived asset	(37,719)	(12,727)
Gain on sales type lease	(36,519)	-
Loss (gain) on sale/disposal of long-lived assets	1,626	(16,306)
Change in deposits with trustees	(664)	341
Change in receivables (excluding notes)	(29,468)	(8,059)
Change in allowance for doubtful receivables	(232)	5,671
Change in inventory, prepaids and other assets	(110)	1,292
Change in operating right of use assets	(997)	835
Change in accounts payable and accrued expenses	5,937	35,012
Change in deferred revenue	(4,343)	4,346
Change in other liabilities	7,769	968
Change in pension/post retirement liability	42,406	(28,793)
Change in reserve for self-insured liabilities	(1,554)	(7,123)
Change in operating lease obligation	1,166	(251)
Change in refundable advances under Federal Student Loan Program	184	(8)
Net cash and cash equivalents used in operating activities	(14,707)	(1,565)
Cash flows from investing activities		
Proceeds from sale of investments	753,650	454,112
Purchases of investments	(699,924)	(439,371)
Loss (return) on unexpended bond proceeds	13	(79)
Proceeds from sales type lease	2,040	-
Proceeds from property/land sale	-	18,392
Purchases and renovations of long-lived assets	(33,525)	(16,503)
Restricted contributions	(7,781)	(8,439)
Net cash and cash equivalents provided by investing activities	14,473	8,112
Cash flows from financing activities		
Proceeds from notes payable	98,562	45,000
Payment on notes payable	(90,000)	(45,000)
Payment on bonds payable	(11,658)	(2,798)
Principal payments on finance lease obligations	(3,624)	25,758
Change in finance right of use assets	(4,331)	(35,248)
Student loans issued	(1,769)	(483)
Student loans collected	1,790	1,883
Proceeds from restricted contributions	7,781	8,439
Net cash and cash equivalents used in financing activities	(3,249)	(2,449)
(Decrease) increase in cash and cash equivalents	(3,483)	4,098
Cash and cash equivalents at beginning of year	32,998	28,900
Cash and cash equivalents at end of year	\$ 29,515	\$ 32,998
Supplemental cash flow information:		
Cash paid for interest	\$ 27,466	\$ 23,143
Supplemental non-cash investing and financing activities:		
Acquisition of equipment under financing leases	7,679	34,942
Stock distributions	1,477	2,434

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

THE HOWARD UNIVERSITY

Notes to the Consolidated Financial Statements

(amounts in thousands)

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 University conveyed its fee simple interest in the properties known as the East Tower, the West Tower, Drew Hall and Cook Hall to Howard Dormitory Holdings 1, LLC by Special Warranty Deed recorded in January 2017. The Howard SPE is wholly-owned by the University.

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. In addition, Howard analyzed its tax positions for the

THE HOWARD UNIVERSITY
Notes to the Consolidated Financial Statements

(amounts in thousands)

years ended June 30, 2019 and 2018 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 the statement of activities for the year ended June 30, 2018. Such summarized information is prepared in a manner consistent with the statement of activities information from which it was derived.

Operating results in the statements of activities reflect all transactions increasing and decreasing net assets except those that the University defines as non-operating. Non-operating includes all investment returns in excess of those classified as operating by the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interests in perpetual trusts, endowment transfers, changes in accounting principle, and changes in valuation of split interest agreements, and net changes in pension liabilities.

(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) ***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

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(amounts in thousands)

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. Howard classifies any cash or money market accounts held by external managers as investments, as these amounts are not readily available for operations and are part of the long-term investment portfolio.

(e) **Investments**

Investments are segregated between operating, donor 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 include items that are short-term in nature and can be liquidated at the discretion of the Board of Trustees (the “Board”) to meet operational demands. Operating investments also includes a non-controlling interest in a dialysis joint venture (see Note 21).

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.

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.

The fair values of Howard’s investments are determined by the most relevant available and observable valuation inputs as defined in Note 6. 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.

Investment income (losses) are allocated in a manner consistent with interest and dividends, to either net assets with donor restrictions or net assets without donor restrictions (distinguished between operating and non-operating), based on

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(amounts in thousands)

donor intent or lack thereof. Such amounts may be expended for operations, based on donor time or purpose restrictions or held in perpetuity at the donor's request. Investment income (losses) on loan funds are accumulated in permanently restricted net assets.

Operating investment income includes interest, dividends and operating investment returns.

(f) ***Receivables and Revenue Recognition***

(1) **Revenue**

The University adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) on July 1, 2018, using the modified retrospective approach. As a result, the University updated its revenue recognition accounting policies as outlined below. The accompanying consolidated statement of activities for the year ended June 30, 2019, is presented in accordance with ASC 606 and ASC Subtopic 958-605 *Not for Profit Entities - Revenue* (where applicable), while prior period amounts are not adjusted and continue to be recorded in accordance with historic accounting guidance, namely ASC 605, Revenue Recognition.

Subsequent to the adoption of ASC 606, the University measures revenue from contracts with customers based on the consideration specified in a contract with a customer, and recognizes revenue as a result of satisfying its promise to transfer goods or services in a contract with a customer using the following general revenue recognition five-step model: (1) identify the contract; (2) identify performance obligations; (3) determine transaction price; (4) allocate transaction price; and (5) recognize revenue.

Disaggregation of Revenue from Contracts with Customers

ASC 606 requires that entities disclose disaggregated revenue information in categories (such as type of good or service, geography, market, type of contract, etc.) that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. ASC 606 explains that the extent to which an entity's revenue is disaggregated depends on the facts and circumstances that pertain to the entity's contracts with customers and that some entities may need to use more than one type of category to meet with the objective for disaggregating revenue.

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(amounts in thousands)

Judgements

The University earns revenue primarily through instruction in the form of tuition and fees on its Washington, DC campuses. The University serves both domestic and international students. Tuition and fees are recognized over the course of the semester based on the published start and end dates for classes. In addition to tuition and fees, the University also earns revenue through auxiliary services and other sources. These sources of revenue can be disaggregated by whether there is a contract with a student or non-student, or if there is no contract. The University recognizes non-student contracts based on the date of the event or when the service is provided. The following tables show the disaggregation and the adjustments required to return certain June 30, 2019 financial statement contract balances to legacy GAAP:

STATEMENT OF ACTIVITIES	As Presented	Legacy GAAP	Adjustments
Tuition and fees, net:			
Contracts with customer - student	\$ 268,644	\$ 268,644	\$ -
Financial aid- student	(111,935)	(111,935)	-
Refund liability - student	(1,739)	(1,739)	-
Bad debt - student	(4,231)	-	(4,231)
Scholarships/discounts - student	(8,374)	(8,374)	-
Total Tuition and fees, net	\$ 142,365	\$ 146,595	\$ (4,231)
Auxiliary Services:			
Contract - student	\$ 16,736	\$ 16,736	\$ -
Public stations	8,178	8,178	-
Student events	642	642	-
No contract	6,994	6,994	-
Total Auxiliary Services	\$ 32,550	\$ 32,550	\$ -
Clinical Services:			
Patient service – hospital	\$ 238,161	\$ 286,311	\$ (48,150)
Bad debt – hospital	-	(48,150)	48,150
Patient service - faculty medical practice (FPP)	27,965	35,039	(7,074)
Patient service – dental	2,364	2,506	(142)
Bad debt – FPP / dental	-	(7,216)	7,216
Total Clinical Services	\$ 268,490	\$ 268,490	\$ -
Expenses:			
Bad debt expense	-	(4,231)	(4,231)
Total Adjustments – Statement of Activities			\$ -

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STATEMENT OF FINANCIAL POSITION	As Presented	Legacy GAAP	Adjustments
Student accounts receivable less allowance	\$ 17,526	\$ 17,526	\$ -
Auxiliary receivables	4,219	4,219	-
Hospital accounts receivable less contractual adjustments	36,960	36,960	-
FPP receivable less contractual adjustments	7,180	7,180	-
Dental receivable less contractual adjustments	1,739	1,739	-
Total Adjustments - Statement of Financial Position			\$

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account under ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The University does not capitalize contract costs.

The performance obligations related to contracts with students involves providing instruction, housing and dining (if applicable), and access to the University's facilities and services throughout the contract term. As a result, the performance obligations are satisfied over time ratably throughout each contract's applicable period.

Howard enters into contracts that include various combinations of services, which are generally capable of being distinct and are accounted for as separate performance obligations.

The University's contracts with customers subject to ASC 606 guidance applies to the following revenue:

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 is deferred and recognized in the following fiscal year due to summer sessions between May and July crossing fiscal years. Tuition discounts in the form of scholarships and grants-in-aid, including those funded by the endowment, research funds, and gifts, are reported as a reduction of tuition revenues. A tuition discount represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. For any such arrangements, the transaction price only includes tuition and fees net of the awarded discounts or institutional aid. The University also grants a tuition discount in the form of a tuition rebate program to incentivize students to earn their degree early or on-time. On-time or early graduates are

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eligible to receive a 50 percent discount on their tuition for their final semester. The rebate is applicable to direct payments made to the University by the student or family toward the final semester's tuition.

NET TUITION REVENUE	2019	2018
Gross tuition and fees	\$ 254,300	\$ 259,701
Financial aid:		
Merit	76,166	68,463
Need	10,484	9,670
Talent	7,775	7,999
Other	17,510	29,938
Total financial aid	\$ 111,935	\$ 116,070
TOTAL NET TUITION	\$ 142,365	\$ 143,631

Other income represents income from activities other than those that are ongoing and central to Howard's core business operations and is recognized as revenue in the period it is earned and collectible.

Net patient service revenue relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. Net patient service revenue is based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of price concessions under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and insured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect.

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

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(amounts in thousands)

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	2019	2018
Gross Revenues	\$ 826,942	\$ 713,815
Third-party settlement revenue	68,983	60,309
Contractual allowances and adjustments	-	(488,292)
Price concessions	(627,435)	-
Charity services	-	(10,445)
Bad debt	-	(42,314)
Total net patient service revenue	\$ 268,490	\$ 233,073

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 and bookstore vendors.

AUXILIARY SERVICES REVENUE	2019	2018
Student housing	\$ 3,730	\$ 7,358
Meal plans	16,474	16,457
Radio station	8,142	8,732
Bookstore	262	682
Parking fees	2,163	1,844
Vending sales and fees	532	1,006
Ticket sales	642	614
Licensing	135	150
Other	470	602
Total auxiliary services revenue	\$ 32,550	\$ 37,445

Real property revenue is comprised of income and gains from real estate transactions including lease income and is recognized as revenue in the period it is earned and collectible. Revenue recognition for real property lease income transactions is disclosed in further detail in Note 11.

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Notes to the Consolidated Financial Statements

(amounts in thousands)

The following revenue streams are subject to the guidance in Topic 958, *Not for Profit Entities*, unless otherwise noted:

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). Howard adopted ASU 2018-08, *Not for Profit Entities*, Topic 958 on July 1, 2018. The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The University adopted this standard in fiscal year 2019 using the modified prospective approach and it did not have a material impact to Howard's Consolidated Financial Statements. For the year ended June 30, 2019, Howard recognized \$48,310 of revenue subject to Topic 958 and \$481 of revenue subject to ASC 606, *Revenue from Contracts with Customers*.

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.

GRANTS AND CONTRACTS REVENUE	2019	2018
Reimbursement of direct expenses	\$ 42,365	\$ 45,413
Recovery of indirect costs	6,426	7,838
Total grants and contracts revenue	\$ 48,791	\$ 53,251
Indirect costs recovery as a % of direct costs	15%	17%

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

GRANTS AND CONTRACTS REVENUE BY TYPE	2019	2018
Research	\$ 25,956	\$ 34,839
Training	13,680	11,665
Service/other	9,155	6,747
Total grants and contracts revenue by type	\$ 48,791	\$ 53,251

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of

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restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Contribution revenue for fiscal years ended June 30, 2019 and 2018 is shown below:

CONTRIBUTIONS REVENUE	2019	2018
Without donor restrictions	\$ 45,798	\$ 17,904
With donor restrictions	7,781	15,207
TOTAL	\$ 53,579	\$ 33,111

Contributions 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.

Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are capitalized. Donations of such collections are recorded for financial statement purposes as contributions. Proceeds from sales of such items are used to acquire other items for the collections.

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 which is required to be held for 20 years. For fiscal years ended June 30, 2019 and 2018, Howard received 27% and 29%, respectively, of its revenue support from the Federal appropriation. The \$3,405 and \$3,405, receivable for the fiscal years ended June 30, 2019 and 2018, respectively, represents the portion to be collected on the Federal term endowment as defined in Note 14.

- (2) **Student receivables** represent unpaid tuition and fees assessed in current and prior periods that are generated when a student registers for classes through

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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, 2019 and 2018 was \$111,935 and \$116,070, respectively.

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.

(g) **Recently Adopted Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, Not-For Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. As a result of adopting the pronouncement, Howard changed its presentation of net assets classes and expanded the footnote disclosure as required, reclassified the opening underwater endowed net assets balances from without donor restrictions to with donor restrictions, classified capital gifts for construction as net assets without donor restrictions when the associated long-lived asset is placed in service and netted investment expenses against investment returns in the consolidated statement of activities. Howard opted to adopt the modified retrospective basis and not disclose liquidity and availability information for fiscal year 2018 as permitted under the ASU in the year of adoption. Howard has opted to disclose functional expenses by nature for fiscal year 2018 (see Note 15).

In May 2014 the FASB issued ASC 606, *Revenue Recognition from Contracts with Customers* (ASC 606). The core principle of guidance is that an entity should

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recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Howard adopted ASC 606 on July 1, 2018 and elected the modified retrospective approach for implementation. See Note 1(f) above.

In December 2016, the FASB issued ASU number 2016-18 (Topic 230), *Statement of Cash Flows*. The ASU provides guidance on all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The University adopted this standard in fiscal year 2019. The University has not recorded any cash restrictions during any of the years presented.

In August 2016, the FASB issued ASU number 2016-15 (Topic 230), *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*. The ASU provides guidance on all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The University adopted this standard in fiscal year 2019. The University has addressed Topic 230 of settlement of insurance claims by reporting specific repair reimbursements in the amount of \$30,889 within the operating section of the statement of cash flows for fiscal year 2019. No material items were identified for the comparative period 2018.

In January 2016, the FASB issued ASU number 2016-01 (Subtopic 825-10), *Financial Instruments—Overall*. The ASU provides guidance on certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Board also addressing measurement of credit losses on financial assets in a separate project. The updates affect all entities that hold financial assets or owe financial liabilities. The University adopted this standard in fiscal year 2019 and there was no material impact that required further disclosure.

(h) ***Changes in Accounting Principle***

Prior to fiscal year 2019, Howard University (HU) had elected to not recognize or capitalize contributions of works of art, historical treasures, and similar assets held as part of collections. During fiscal year 2019, HU changed its accounting policy and will capitalize and recognize works of art on the consolidated statements of financial position. HU has adopted the prospective approach for recording the works of art under ASC 250-10-45-7 and 9(c), *Accounting Changes and Error Corrections*. ASC 250 provides guidance on the accounting for and reporting of accounting changes and error corrections. An accounting change can be a change

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in an accounting principle, an accounting estimate, or the reporting entity. HU has adopted the provisions of ASC 958-605-25-2 and will capitalize art work that has been appraised by qualified third parties at fair market value if it exceeds \$10. The capitalized works of art will be recorded as "long lived assets" on the consolidated statements of financial position and will not be depreciated. Donated works of art will be capitalized and recognized as contribution revenue without donor restrictions unless the donor imposes restrictions on the contribution. At year-end, HU has recognized currently held works of art as contribution revenue in the amount of \$37,719, and prospectively, all contributed works of art will be recognized at fair market value in the period of donation. Independent appraisals of the collection will be performed periodically and material changes in fair value will be recorded.

(i) ***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 deferred health charges, intellectual property, and beneficial interest trust.

(j) ***Long-Lived Assets***

Long-lived assets include property, plant, equipment, art and historical treasures for the University. Property, plant, equipment is stated at cost or at fair value if received by gift, less accumulated depreciation and amortization. Property, plant, equipment is capitalizable when the unit cost is equal to or exceeds \$3 and has a useful life of more than one year.

During fiscal year 2019, the University changed its accounting policy (see Note 1 h) and will capitalize and recognize purchased and donated works of art and historical treasures on the balance sheet that exceed \$10. Howard does not depreciate inexhaustible collections, works of art and historical treasures where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. However, impaired works of art are adjusted to fair market value, with change in value being recognized as a gain or loss on the statement of activities.

Depreciation for all other long lived assets 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 improvements	1-25 years
Building and building improvements	5-40 years

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Furniture and equipment	3-20 years
Software	3-10 years
Library books	10 years

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. Such assets are subject to transfer or disposal by the relevant cognizant agency.

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 placed in service for their intended use.

The recorded values of certain properties include the fair value of any environmental remediation 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.

(k) ***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, 2019 and 2018 the obligation was \$4,866 and \$4,840, respectively.

(l) ***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.

(m) ***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 either 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.

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(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) ***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.

(p) ***Net Assets***

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

Without Donor Restrictions – Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the Board) and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

With Donor Restrictions – Net assets with donor restrictions are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions pursuant to those stipulations.

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 revenues without donor restrictions. 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 with donor restrictions net assets to without donor restrictions 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.

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(q) ***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 gains and losses from real estate related transactions which were 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 credits and (costs) that do not pertain to continuing core program services.

(r) ***New Accounting Pronouncements***

Periodically, the Financial Accounting Standards Board (FASB) issues updates to the Accounting Standards Codification (ASC) which impact Howard's financial reporting and related disclosures. The following paragraphs summarize relevant updates. Unless otherwise noted, Howard University is currently evaluating the impact that these updates will have on the Consolidated Financial Statements.

In March 2019, the FASB issued ASU 2019-03, *Not-for-Profit Entities (Topic 958): Updating the Definition of Collections*, effective for annual financial statements issued for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. ASU 2019-03 modifies the definition of the term "collections" so that they are subject to an organizational policy that stipulates the use of proceeds from collection items that are sold to be for the acquisition of new collection items, the direct care of existing collections, or both. Howard is evaluating the impact of ASU 2019-03.

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, effective for fiscal years beginning after December 15, 2020. The ASU aligns the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value (in Topic 820, *Fair Value Measurement*) should be applied. Howard is evaluating the impact of ASU 2019-01.

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In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, effective for annual periods beginning after December 15, 2020. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. Howard is evaluating the impact of ASU 2018-15.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*, effective for annual periods beginning after December 15, 2020. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Howard is evaluating the impact of ASU 2018-14.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, effective for fiscal years beginning after December 15, 2019. ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. Howard is evaluating the impact of ASU 2018-13.

(s) **Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year's presentation. Howard adopted ASU 2016-14 in July 2018. The ASU modifies Not-for Profit (NFP) reporting requirements by changing the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs. The standard requires Howard to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements. The guidance also enhances disclosures about the composition of net assets, liquidity and expenses by both natural and functional classification. There is no significant impact to total net assets or total expenses from these changes.

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As a result of adopting this standard, net assets as of June 30, 2019, in thousands of dollars, have been reclassified as follows:

NET ASSETS CLASSIFICATIONS as of June 30, 2018	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL NET ASSETS
As previously presented:			
Unrestricted	\$ 233,839	\$ -	\$ 233,839
Temporarily restricted	-	291,409	291,409
Permanently restricted	-	142,287	142,287
TOTAL NET ASSETS, REVISED	\$ 233,839	\$ 433,696	\$ 667,535

2. Liquidity and Availability of Resources

As of June 30, 2019, financial assets and liquidity resources that are available within one year for general expenditures consists of the following:

FINANCIAL ASSETS AND LIQUIDITY RESOURCES	2019
<i>Financial Assets:</i>	
Cash and cash equivalents	\$ 29,515
Operating investments	27,266
Receivables, net (excluding pledges with donor restrictions)	126,051
Other investments appropriated for current use	24,536
Total financial assets available within one year	\$ 207,368
<i>Liquidity Resources:</i>	
Bank line of credit	100,000
Total financial assets and liquidity resources available within one year	\$ 307,368

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. Receivables includes pledges that are subject to implied time restrictions but are expected to be collected within one year. The University's endowment investments consist of donor-restricted and quasi-endowment assets that is subject to a board spending policy of 4 percent. Within the next year, \$24,000 is expected to be made available for general expenditures from the endowment. Although the University requires Board approval to spend from its Board-designated quasi-endowment assets, other than investment income appropriated for general expenditures, amounts from the quasi-endowment could be made available if necessary. See Notes 7 and 14 for additional disclosures on Board-designated quasi-endowment assets. In addition, to help manage unanticipated liquidity needs, the University has a committed line of credit in the amount

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of \$100,000 which it could draw upon. As of June 30, 2019, there was no outstanding balance on the line of credit.

3. Receivables

Accounts receivable, prior to adjustment for doubtful collections, are summarized as follows at fiscal years ended June 30, 2019 and 2018:

RECEIVABLES	2019	2018
Student	\$ 29,369	\$ 33,140
Notes	13,445	13,467
Federal appropriation	3,405	3,405
Patients and third-party payors - Hospital	48,674	87,493
Patients and third-party payors - FPP	4,671	6,656
Patients and third-party payors - Dental	1,421	1,908
Grants and contracts	14,829	16,477
Contributions	9,767	10,726
Insurance claims	-	3,954
Auxiliary services	4,415	5,190
Real property	34,145	-
Other	5,086	6,448
Total	\$ 169,227	\$ 188,864

Other receivables include checks pending deposit at year end, rent receivables and certain vendor credit balances.

Allowance for doubtful receivables is summarized as follows at fiscal years ended June 30, 2019 and 2018:

ALLOWANCE FOR DOUBTFUL ACCOUNTS	2019	2018
Student	\$ 11,843	\$ 12,520
Notes	6,556	6,421
Patients and third-party payors - Hospital	-	49,657
Patients and third-party payors - FPP	-	3,199
Patients and third-party payors - Dental	-	538
Grants and contracts	616	616
Contributions	4,219	3,029
Auxiliary services	196	506
Real property	246	-
Totals	\$ 23,676	\$ 76,486
Total receivables, net	\$ 145,551	\$ 112,378

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Provision for bad debt is summarized as follows at fiscal years ended June 30, 2019 and 2018:

PROVISION FOR BAD DEBT	2019	2018
<i>Non-clinical services:</i>		
Student services	\$ 4,390	\$ 6,276
Notes	-	(788)
Contributions	1,189	162
Other	-	22
Total non-clinical	\$ 5,579	\$ 5,672
<i>Clinical services:</i>		
Patients and third-party payors - Hospital	-	36,292
Patients and third-party payors - FPP	-	6,221
Patients and third-party payors - Dental	-	(199)
Total clinical services	\$ -	\$ 42,314
Total provision for bad debt	\$ 5,579	\$ 47,986

Bad debt expense of \$5,579 and \$5,672 for fiscal years ended June 30, 2019 and 2018, respectively, reflected in total operating expenses under Institutional support 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, 2019 and 2018 are expected to be received as follows:

CONTRIBUTIONS RECEIVABLE	2019	2018
Within one year	\$ 4,748	\$ 4,510
Between one and five years	5,797	6,960
Thereafter	100	394
Contributions receivable gross	10,645	11,864
Unamortized discount on contributions receivable (2%-6.5%)	(878)	(1,138)
Contributions receivable, net of discounts	9,767	10,726
Allowance for uncollectible contributions	(4,219)	(3,029)
Contributions receivable, net of discounts and allowance	\$ 5,548	\$ 7,697

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4. Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts at fiscal years ended June 30, 2019 and 2018 are as follows:

Inventories - Hospital	\$ 3,720	\$ 3,784
Prepaid expenses	6,995	7,738
Beneficial interest trust	6,212	5,968
Self-insured assets	6,248	6,248
Intellectual property costs	1,296	1,240
Other	1,168	551
Total	\$ 25,639	\$ 25,529

5. Deposits with Trustees and Reserves for Self-insured Liabilities

	2019	2018
Debt service reserve	\$ 12,865	\$ 13,386
Workers' compensation	2	4
Health insurance trust	2,915	1,728
Total	\$ 15,782	\$ 15,118
LIABILITIES		
	2019	2018
Professional liability	\$ 45,371	\$ 46,979
Workers' compensation	13,882	14,442
Health insurance trust	6,284	5,670
Total	\$ 65,537	\$ 67,091

(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.

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(b) Professional Liability

Howard is involved in litigation arising in the ordinary course of business. Claims alleging malpractice that have been asserted against the Hospital and certain faculty physicians are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2019. 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, 2019 and 2018 of approximately \$45,371 and \$46,979, respectively is adequate to provide for losses resulting from probable asserted and unasserted claims and pending or threatened litigation.

Professional liability activity is summarized as follows for fiscal years ended June 30, 2019 and 2018 in the table below.

PROFESSIONAL LIABILITY	2019	2018
Beginning balance	\$ 46,979	\$ 53,976
Malpractice claims expense	2,927	6,153
Settlement payments	(4,535)	(13,150)
Ending balance	\$ 45,371	\$ 46,979

(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, 2018, workers' compensation liabilities are being satisfied as claims arise. For fiscal years ended June 30, 2019 and 2018, Howard maintained \$6,340 and \$6,248 in letters of credit, respectively, 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, 2019 and 2018 expenses related to workers' compensation were \$2,356 and \$2,318, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately \$13,882 and \$14,442 at June 30, 2019 and 2018, respectively, and includes liabilities for claims covered under existing insurance policies. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as

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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 \$0 at June 30, 2019 and 2018, 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, 2018, 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, 2019 and 2018, is approximately \$6,284 and \$5,670, respectively.

6. 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 a hierarchy which consists of 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, 2019 and 2018 are subject to fair value accounting.

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Fair value as of June 30, 2019 is as follows:

FAIR VALUE AS OF JUNE 30, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Unexpended bond proceeds (5)	\$ -	\$ 3,104	\$ -	\$ 3,104
Deposits with trustees (6)	2,917	12,865	-	15,782
Other assets (7)	-	-	6,212	6,212
Total assets (non investment)	\$ 2,917	\$ 15,969	\$ 6,212	\$ 25,098
Operating investments				
Common Stock (3)	22,485	-	-	22,485
Equity Investment (7)	-	-	4,781	4,781
Total operating investments	\$ 22,485	\$ -	\$ 4,781	\$ 27,266
Restricted investments				
Money Market Instrument (1)	8,216	750	-	8,966
Common Stock (3)	28,913	-	-	28,913
Private Equity (4)	-	-	3,199	3,199
Private Debt (4)	-	-	14,097	14,097
Real Estate (4)	-	-	2,615	2,615
Total restricted investments	\$ 37,129	\$ 750	\$ 19,911	\$ 57,790
Endowment investments				
Money Market Fund (1)	425	36,182	-	36,607
Common/collective trusts				
Emerging Market Equity (3)	-	29,635	-	29,635
Global Fixed Income Security (2)	39,838	23,417	-	63,255
International Equity Security (3)	-	58,170	-	58,170
Commodity Inflation Hedging (7)	-	2,000	-	2,000
Common Stock (3)	79,136	-	-	79,136
Fixed income				
Corporate Bond (2)	-	7	-	7
Hedge funds				
Equity Long/short (4)	-	29,725	-	29,725
Global opportunities (4)	-	6,137	-	6,137
Multi-strategy (4)	-	28,306	1	28,307
Credit Opportunities (4)	-	15,077	-	15,077
Mutual funds investment				
Emerging Market Equity Security (3)	4,181	-	-	4,181
Domestic Common Stock (3)	2,340	-	-	2,340
Domestic Fixed Income (2)	85,891	-	-	85,891
International Equity Security (3)	9,843	-	-	9,843
Private Equity and Venture Capital (4)	-	-	109,969	109,969
Private Debt (4)	-	-	50,126	50,126
Real estate (4)	-	-	81,883	81,883
Total endowment investments	\$ 221,654	\$ 228,656	\$ 241,979	\$ 692,289
Total investments	\$ 281,268	\$ 229,406	\$ 266,671	\$ 777,345
Assets not subject to fair value reporting (8)	2,964	-	-	2,964
Liabilities not subject to fair value reporting (8)	(2,421)	-	-	(2,421)
Total assets and liabilities measured at fair value	\$ 284,728	\$ 245,375	\$ 272,883	\$ 802,986

Level 3 investments were 34% of total investments.

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Fair value as of June 30, 2018 is as follows:

FAIR VALUE AS OF JUNE 30, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Unexpended bond proceeds (5)	\$ -	\$ 3,117	\$ -	\$ 3,117
Deposits with trustees (6)	1,732	13,386	-	15,118
Other assets (7)	6,248	-	5,968	12,216
Total assets (non investment)	\$ 7,980	\$ 16,503	\$ 5,968	\$ 30,451
Operating investments				
Common Stock (3)	39,940	-	-	39,940
Equity Investment (7)	-	-	4,753	4,753
Total operating investments	\$ 39,940	\$ -	\$ 4,753	\$ 44,693
Restricted investments				
Money Market Instrument (1)	-	1,036	-	1,036
Common Stock (3)	49,672	-	-	49,672
Private Equity (4)	-	-	3,156	3,156
Real Estate (4)	-	-	250	250
Total restricted investments	\$ 49,672	\$ 1,036	\$ 3,406	\$ 54,114
Endowment investments				
Money Market Fund (1)	8,870	50,901	-	59,771
Comingled Funds				
Emerging Market Equity (3)	-	35,128	-	35,128
Global Fixed Income Security (2)	-	38,588	-	38,588
International Equity Security (3)	-	118,435	-	118,435
Commodity Inflation Hedging (7)	-	12,897	-	12,897
Common Stock (3)	63,351	-	-	63,351
Fixed Income				
Corporate Bond (2)	-	12	-	12
Hedge Funds				
Equity Long/short (4)	-	20,777	-	20,777
Event driven (4)	-	-	12	12
Global opportunities (4)	-	5,832	-	5,832
Multi-strategy (4)	-	34,585	2	34,587
Credit Opportunities (4)	-	10,150	-	10,150
Mutual Funds				
Emerging Market Equity Security (3)	15,458	-	-	15,458
Domestic Common Stock (3)	36,527	-	-	36,527
Domestic Fixed Income (2)	83,341	-	-	83,341
International Equity Security (3)	10,069	-	-	10,069
Private Equity and Venture Capital (4)	-	-	105,268	105,268
Real estate (4)	-	-	38,698	38,698
Total endowment investments	\$ 217,616	\$ 327,305	\$ 143,980	\$ 688,901
Total investments	\$ 307,228	\$ 328,341	\$ 152,139	\$ 787,708
Assets not subject to fair value reporting (8)	718	-	-	718
Liabilities not subject to fair value reporting (8)	(1,057)	-	-	(1,057)
Total assets and liabilities measured at fair value	\$ 314,869	\$ 344,844	\$ 158,107	\$ 817,820

Level 3 investments were 19% of total investments.

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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

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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) 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.
- (6) 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.
- (7) Other assets represent the University's beneficial interest in certain trust assets held by third parties. The underlying trust assets comprise of a variety of investments, primarily exchange-traded funds and corporate fixed income. 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.
- (8) Assets and liabilities not subject to fair value reporting represent exchanges between the University and its investment managers that have been entered into but not settled by the reporting date of June 30, 2019. These transactions are shown net with endowment investments.

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.

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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, 2019 is as follows:

CHANGES IN LEVEL 3 FOR THE YEAR ENDED JUNE 30, 2019	Private Equity / Debt	Hedge Funds	Real Estate	Other Assets	Total
Balance July 1, 2018	\$ 108,424	\$ 14	\$ 38,948	\$10,721	\$ 158,107
Gain and Loss (Realized and unrealized)	16,919	(13)	8,420	272	25,598
Acquisitions	102,572	-	42,818	-	145,390
Sales	(50,524)	-	(5,688)	-	(56,212)
Balance June 30, 2019	\$ 177,391	\$ 1	\$ 84,498	\$10,993	\$ 272,883
Change in unrealized investments held	\$ -	\$ (1)	\$ 6,374	\$ 245	\$ 6,618

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2019. 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, 2018 is as follows:

CHANGES IN LEVEL 3 FOR THE YEAR ENDED JUNE 30, 2018	Private Equity / Debt	Hedge Funds	Real Estate	Other Assets	Total
Balance July 1, 2017	\$ 87,511	\$ 74	\$ 21,786	\$ 10,655	\$ 120,026
Gain and Loss (Realized and unrealized)	11,881	(60)	5,082	66	16,696
Acquisitions	29,321	-	19,600	-	48,921
Sales	(20,289)	-	(7,520)	-	(27,809)
Balance June 30, 2018	\$ 108,424	\$ 14	\$ 38,948	\$ 10,721	\$ 158,107
Change in unrealized investments held	\$ 11,353	\$ 2	\$ 9,050	\$ 367	\$ 20,772

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2018. Transfers, when made, are deemed to be made at the end of the fiscal year.

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Net investment income (loss) is summarized as follows for fiscal years June 30, 2019 and 2018:

NET INVESTMENT INCOME (LOSS)	2019	2018
Interest and dividends	\$ 17,490	\$ 9,728
Net realized gains	45,243	35,004
Net unrealized (losses) gains	(11,892)	23,982
Other investment income, net of expense	323	297
Investment expenses	(6,806)	(5,274)
Net investment income (loss)	\$ 44,358	\$ 63,737
Current year unrestricted operating return (loss)	\$ 984	\$ 4,541
Current year non-operating investment return (loss):		
Without donor restriction	22,798	31,406
With donor restriction	20,576	27,790
Total current year investment return	\$ 44,358	\$ 63,737
Prior year return designated for current operations:		
Without donor restriction	(10,308)	(9,967)
With donor restriction	(13,154)	(12,230)
Total designated for current operation	\$ (23,462)	\$ (22,197)
Net non-operating investment return:		
Without donor restriction	12,490	21,439
With donor restriction	7,422	15,560

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, 2019 and 2018. 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, 2019	Fair Value	Unfunded Commitments	Redemption/Withdrawal Frequency	Redemption/Withdrawal Notice Period
Hedge funds	\$ 79,245	\$ 1,020	Monthly - Annually	45 - 90 days
Real estate funds	84,498	32,438	-	1 - 10 years
Common/collective trusts	153,182	-	Monthly	-
Limited partnerships	177,391	131,852	-	≤ 10 years

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INVESTMENTS AS OF JUNE 30, 2018	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds	\$ 71,358	\$ -	Monthly - Annually	45 - 90 days
Real estate funds	38,948	16,934	-	2 - 10 years
Common/collective trusts	205,161	-	Monthly	-
Limited partnerships	108,424	67,330	-	≤ 10 years

7. Endowment Fund

Howard’s endowment includes approximately 935 individual accounts established to fund scholarships, professorships, student loans, general operations and other purposes. 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 is classified as net assets with donor restrictions 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

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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.

The change in value and the composition of amounts classified as endowment as of June 30, 2019 is as follows:

ENDOWMENT CHANGE IN VALUE FOR YEAR ENDING JUNE 30, 2019	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Endowment net assets, beginning of year	\$ 373,971	\$ 317,996	\$ 691,967
Investment return:			
Investment income	7,148	9,090	16,238
Net appreciation (realized and unrealized)	12,923	11,413	24,336
Total investment return	\$ 20,071	\$ 20,503	\$ 40,574
Contributions	938	7,592	8,530
Appropriation of endowment assets for operations	(9,453)	(14,009)	(23,462)
Other changes:			
Endowment withdrawals	(20,000)	-	(20,000)
Transfer and other changes	3,465	428	3,893
Change in underwater classification	3,199	(3,199)	-
Endowment net assets, end of year	\$ 372,191	\$ 329,311	\$ 701,502
Donor-restricted endowment funds	\$ -	\$ 332,493	\$ 332,493
Underwater endowment funds	-	(3,182)	(3,182)
Board designated quasi-endowment	372,191	-	372,191
Endowment net assets, end of year	\$ 372,191	\$ 329,311	\$ 701,502

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The change in value and the composition of amounts classified as endowment as of June 30, 2018 is as follows:

ENDOWMENT CHANGE IN VALUE FOR YEAR ENDING JUNE 30, 2018	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Endowment net assets, beginning of year	\$ 351,681	\$ 298,280	\$ 649,961
Investment return:			
Investment income	3,965	5,044	9,009
Net appreciation (realized and unrealized)	20,039	23,053	43,092
Total investment return	\$ 24,004	\$ 28,097	\$ 52,101
Contributions	1,230	7,040	8,270
Appropriation of endowment assets for operations	(8,973)	(13,224)	(22,197)
Other changes:			
Match release	2,566	(2,566)	-
Transfer and other changes	3,463	369	3,832
Endowment net assets, end of year	\$ 373,971	\$ 317,996	\$ 691,967
Donor-restricted endowment funds	\$ -	\$ 317,996	\$ 317,996
Underwater endowment funds	(3,209)	-	(3,209)
Board designated quasi-endowment	377,180	-	377,180
Endowment net assets, end of year	\$ 373,971	\$ 317,996	\$ 691,967

Howard's endowment net assets include receivables related to the federal term endowment and contributions, which have not been invested and therefore not included as part of endowment investments. For fiscal years ended June 30, 2019 and 2018 receivables of \$8,670 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 net assets with donor restriction and totaled \$3,182 and \$3,209 as of fiscal years ended June 30, 2019 and 2018, 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.

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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 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 4 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.

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8. Long-Lived Assets

LONG-LIVED ASSETS	2019	2018
Land and land improvements	\$ 40,759	\$ 40,750
Buildings and building improvements	872,246	871,565
Property held for expansion	56,929	56,929
Property held under leases	32,053	28,773
Furniture and equipment	344,176	331,188
Library books	92,178	92,106
Historical Works and Artifacts	37,719	-
Software	116,909	115,988
Software in progress	414	369
Construction in progress	23,305	12,714
Long-lived assets, gross	1,616,688	1,550,382
Accumulated depreciation and amortization	(1,074,990)	(1,040,121)
Long-lived assets, net	\$ 541,698	\$ 510,261

For the fiscal year ended June 30, 2019 there were \$7,524 in sales, disposals and retirements. For the fiscal year ended June 30, 2018 there were \$18,392 in disposals.

Depreciation expense for the years ended June 30, 2019 and 2018 were \$47,167 and \$39,814, respectively. For fiscal years ended June 30, 2019 and 2018, net interest costs of \$0 were incurred during construction and capitalized as part of the cost of capital projects.

Long-lived assets include 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. Starting fiscal year 2019, long-lived assets include capitalization of donated artwork that is not subject to depreciation (see Note 1 (j)).

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9. Accounts Payable and Accrued Expenses

Components of this liability account at fiscal years ended June 30, 2019 and 2018 are as follows:

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	2019	2018
Vendor invoices	\$ 95,836	\$ 94,356
Accrued salaries and wages	28,190	24,268
Accrued employee benefits	4,956	3,807
Accrued annual leave	4,866	4,840
Accrued interest	4,449	4,475
Other	(556)	58
Total	\$ 137,741	\$ 131,804

10. Other Liabilities and Deferred Revenue

These obligations include the following at fiscal years ended June 30, 2019 and 2018:

OTHER LIABILITIES	2019	2018
Environmental liabilities	\$ 4,683	\$ 4,799
Residence halls	6,747	5,621
Unclaimed property	3,166	3,380
Student deposits and refunds	4,561	1,487
Reserve for legal contingencies	3,850	2,450
Deposits held in custody for others	1,960	1,309
Other	3,957	2,109
Total	\$ 28,924	\$ 21,155

DEFERRED REVENUE	2019	2018
Deferred tuition, room and board	\$ 1,567	\$ 1,727
Deferred grant revenue	9,454	13,186
Other	4,841	5,292
Total	\$ 15,862	\$ 20,205

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Amounts for the fiscal years ended June 30, 2019 and 2018, were as follows:

ENVIRONMENTAL LIABILITIES	2019	2018
Accumulated depreciation	\$ (4)	\$ (4)
Environmental liabilities	4,683	4,799
Total	\$ 4,679	\$ 4,795

Howard incurred costs related to remediation during fiscal years ended June 30, 2019 and 2018 of \$116 and \$294, respectively.

11. Leases

Lease Obligations

In fiscal year 2016, Howard University elected to adopt ASC 842 – *Leases*. 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.

The primary difference between accounting for leases under ASC 840 and the new guidance under ASC 842 is the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. Accordingly, Howard has recognized all lease assets and liabilities, with certain exceptions, on its statements 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 payments.

The classification criteria in ASC 842 for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under ASC 840. Under ASC 842, a lessee finance lease exists when any of the following criteria are met at lease commencement:

- a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- b. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- c. The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
- d. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in

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accordance with paragraph 842-10-30-5(f) equals or exceeds substantially all of the fair value of the underlying asset.

- e. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

A lessor would classify a lease having any of the above characteristics as a sales-type lease.

If the lease has none of the above characteristics, then a lessee would classify the lease as an operating lease. A lessor would classify the lease as either an operating lease or a direct financing lease.

Howard measures its lease assets and lease liabilities using the discount rate implicit in the lease. If that rate is not available or readily determinable, Howard uses its incremental borrowing rate.

Howard has elected to use the practical expedient election under ASC 842-10-15-37. The Practical expedient election allows the lessee to elect by class to choose not to separate non-lease components from lease components and instead account for each lease component as a single lease.

Finance Leases

In the prior year, Howard University entered into a seven-year network management service agreement with IBM for equipment that included an imbedded lease. Howard elected to use the practical expedient election under ASC 842-10-15-37, which allows the lessee to not separate non-lease components from lease components and instead account for each lease component as a single lease.

Howard determined that the lease is a finance type lease based on transfer of ownership of the underlying assets, and the length of the lease term

Howard is obligated under other finance leases for office, technology and medical equipment that extend through 2024, and the chiller plant that extends through 2031, in the amounts of \$51,132 and \$54,756, respectively at fiscal years ended June 30, 2019 and 2018. Lease payments for the chiller plant include both fixed and variable payments. The variable payments are based upon consumption exceeding the threshold specified in the lease.

Howard considered the likelihood of exercising renewal or termination terms in measuring its right-of-use lease assets and lease liabilities. With the exception of leases for certain medical equipment that will expend its useful life by the end of the lease, management reviews each lease option to modify terms on a case by case basis . The right-of-use assets are amortized over their estimated useful lives. The finance lease

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right-of-use assets and accumulated amortization for the fiscal years ended June 30 are as follows:

Right of use assets - financing	\$ 127,762	\$ 121,944
Accumulated amortization	(76,237)	(65,859)
Right of use assets, net	\$ 51,525	\$ 56,085

The discount rates used in measuring the finance right-of-use assets and liabilities are the rates as explicitly stated in each lease (if applicable) or Howard's incremental borrowing rate of 6.5%.

At June 30, 2019, the future minimum lease payments under finance leases (with initial or remaining lease terms in excess of one year) are as follows:

Future principal and interest years ending June 30	
2020	\$ 10,972
2021	10,838
2022	9,823
2023	9,092
2024	8,349
2025 and thereafter	18,665
Obligation, gross	67,739
Amounts representing interest rates from 2% to 10%	(16,607)
Total Lease Obligations, net	\$ 51,132

At June 30, 2019, the minimum interest payments under finance leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follows:

LEASE OBLIGATIONS - INTEREST	
Future interest years ending June 30	
2020	\$ 3,296
2021	2,826
2022	2,323
2023	1,851
2024	1,383
2025 and thereafter	4,928
Total Lease Obligations interest	\$ 16,607

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Operating Leases

Howard has several non-cancelable operating leases for broadcast antennas, equipment and a vehicle fleet that extend through 2029.

Rent expense is recognized on a straight-line basis and is allocated in the statements of activities by function. Rent expense related to building space and equipment for fiscal years ended June 30, 2019 and 2018 was \$7,452 and \$6,837, respectively. Howard considered the likelihood of exercising renewal or termination terms in measuring its right-of-use lease assets and lease liabilities, and has included renewal periods in its assessment of lease terms. The right-of-use assets are amortized over their estimated useful lives. The operating lease right-of-use assets and accumulated amortization for the fiscal years ended June 30 are as follows:

OPERATING RIGHT OF USE ASSETS	2019	2018
Right of use assets - operating	\$ 4,761	\$ 3,764
Right of use assets, net	\$ 4,761	\$ 3,764

At June 30, 2019, the minimum future payments under operating leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follows:

LEASE OBLIGATIONS	OPERATING LEASES
Future principal and interest years ending June 30	
2020	\$ 633
2021	653
2022	674
2023	697
2024	720
2025 and thereafter	3,439
Obligation, gross	\$ 6,816
Amounts representing interest rates from 2% to 10%	(1,802)
Total Operating Lease Obligations, net	\$ 5,014

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LEASE OBLIGATIONS - INTEREST	OPERATING LEASES
Future interest years ending June 30	
2020	\$ 317
2021	295
2022	270
2023	243
2024	211
2025 and thereafter	466
Total Lease Obligations Interest	\$ 1,802

Certain additional supplemental quantitative information as required under ASC 842 is as follows for the fiscal years ended June 30:

LEASE EXPENSE	2019	2018
Finance lease expense:		
<i>Amortization of right of use assets</i>	\$ 9,043	\$ (676)
<i>Interest on lease liabilities</i>	3,594	3,951
Operating lease expense	602	542
Total	\$ 13,239	\$ 3,817
Other information		
Cash paid for amounts included in the measurements of lease liabilities for finance leases:		
Operating cash flows	\$ 475	\$ 3,951
Financing cash flows	7,955	9,490
Change in operating right of use (ROU) leases:		
Operating cash flows	(998)	835
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	38,036	34,942
Operating leases	4,772	-
Weighted-average remaining lease term (in years):		
Finance leases	4.90	8.38
Operating leases	9.37	10.44
Weighted-average discount rate:		
Finance leases	6.22%	7.14%
Operating leases	6.50%	6.50%

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Operating Lease Agreement - Benning Road

In fiscal year 2019, the University entered a nine and a half (9.5) year sub-lease for approximately 5,800 square feet in a healthcare building leased by Unity Health Care, Inc (Unity), to service additional patients. The University will pay Unity annual rent in the amount of \$180 in equal monthly installments payable on the first day of each calendar month during the term of the lease. There are rent escalators after year two of this lease. This lease is defined as an operating lease under ASC 842-10-25 because none of the five criteria were met that would trigger the recognition of a finance lease.

Lease Income

Sales-Type Lease

930 Club

Howard University as lessor has entered into a 99-year ground lease of certain property at 9th and V Street and the related meaningful connection to the 930 Club building to 9th AND W OWNER, LLC on June 28, 2019. The lease proceeds are a one-time payment of \$34,384 and a yearly lease payment of \$1 per year. The land and meaningful connection has a leasehold fair market value of \$32,304. This lease is a sales type lease under ASC 842-10-25-3 because the present value of the minimum lease payments is substantially higher than the fair value of the underlying value of the asset. As a result, Howard recorded a receivable for the proceeds and removed the value of the leased property from the statement of financial position at of June 30, 2019. Given the length of the lease term and that all proceeds are expected within one year of the commencement date, a net investment in the lease was not recorded.

Howard Center

Howard University has entered a 40-year transaction to lease certain floors of the Howard Center, (known as Lot 36, Square 3065 at 2225 Georgia Avenue, N.W, Washington, DC) to 9th and Provident Group-Howard Center, Inc. on November 1, 2018. the University received a one-time payment of \$2,040, which the University shall use for the redevelopment of the 78,131 square foot Miner Building for use by the Howard University School of Education and the Howard University Charter Middle School for Mathematics and Science. The Provident Group will maintain control of leased area and remit annual commissions to Howard, commencing in fiscal year 2020. This lease is a sales type lease under ASC 842-10-25-3 because the lease term will consume more than 75% of the estimated economic life of the leased property.

Lessor Operating Leases

A lease conveys the right to use an identified asset for a period of time. The University assesses all its rental contracts using the provisions within ASC 842 to determine if they

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meet the criteria of a sales type lease. Leases that do not meet the criteria are defined and treated as operating leases. . The University recognizes earned rental income on a straight-line basis, while the underlying leased asset remains on the University’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. Howard considers the likelihood of its tenants exercising renewal or termination terms in its leases, based upon prior renewals or extensions, sales and revenue forecasts, etc. in determining the ultimate term of the lease. Some tenants have the option of re-negotiating a new agreement upon the termination of the lease or extending the terms in the current lease. Termination terms are explicitly stated in each lease agreement. Lease payments are governed by the lease agreement and are generally fixed, although some lease agreements provide for payment escalations based on CPI. Howard only includes consideration for lease components in its determination of lease payments.

Howard’s leased properties are comprised of (1) the Wonder Plaza Building, (2) space available on the top of certain buildings, and (3) ground lease Barry Place). Other standalone buildings owned by Howard are leased to private companies such as (4) a public charter school, (5) a car rental company, and (6) a pharmacy. Howard also leases space in the Hospital to a large private pharmacy. Howard’s leases do not have any provisions for tenants to purchase the underlying asset being leased at the end of the lease term, or that provide for residual value guarantees.

Howard University receives rental income under these lease agreements, which have termination dates through 2024 and thereafter. The total lease income received for fiscal years ended June 30, 2019 and 2018 was \$3,497 and \$3,965, respectively and are reported in real property revenue on the statements of activities.

LEASE INCOME	2019	2018
<i>Sales Type Lease Income</i>		
Lease Payments	\$ 2,040	\$ 18,392
Less: Leased Assets Book Values	1,531	2,086
Total Sales Type Lease Income	\$ 509	\$ 16,306
<i>Operating Lease Income</i>	3,497	3,965
Total Lease Income	\$ 4,007	\$ 20,071

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At June 30, 2019, the future minimum lease income for years ending at June 30 is as follows:

FUTURE MINIMUM LEASE INCOME	JUNE 30
2020	\$ 1,857
2021	1,903
2022	1,963
2023	1,962
2024	1,853
2025 and thereafter	27,526
Total Minimum Lease Income Receipts	\$ 37,064

12. Bonds Payable and Notes Payable

(a) ***Bonds Payable***

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

BONDS PAYABLE	2019	2018
<i>District of Columbia issues:</i>		
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	\$ 5,466	\$ 6,161
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	192,145	192,145
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035	56,855	59,639
2016 Revenue bonds 1.98% Serial due 2015 through 2031	151,805	160,000
Total bonds payable, gross	\$ 406,271	\$ 417,945
Unamortized bond discount	(4,628)	(4,873)
Unamortized bond issuance costs	(4,199)	(4,428)
Total bonds payable, net	\$ 397,444	\$ 408,644

(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

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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 the fiscal year ended June 30, 2019 the fund balance was \$12,865.

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.

In fiscal year 2017, Howard University entered into a Service Concession Agreement with Corvias Campus Living – HU, LLC. resulting in a bond defeasance of \$33,105 for the 2011A Bonds. The defeased bonds are deemed to be paid and no longer outstanding bonds of the District of Columbia. This is reported as a part of income from continuing operations on the statement of activities after total operating expenses. See Note 21 for a description of the Service Concession Agreement.

MATURITY DATE REFUNDED BONDS	REDEEMED PRINCIPAL	RATE	CALL DATE
10/1/2027	\$ 8,645	5.75%	4/1/2021
10/1/2032*	22,755	6.25%	4/1/2021
10/1/2037*	440	6.50%	4/1/2021
10/1/2041*	1,265	6.50%	4/1/2021
Total	\$ 33,105		

**The amounts shown for these maturities represent a portion of the principal amount of the bonds originally issued. Only the specified portions of the principal amounts provided in this notice have been defeased as of the defeasance 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, 2019 and 2018.

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(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, 2019 and 2018, the estimated fair value was approximately \$424,822 and \$436,340, 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.

(b) **Notes Payable**

In June 2016, Howard entered into a \$75,000 JP Morgan Revolving Credit Agreement. The initial agreement, which was to terminate in June 2019, was extended during the fiscal year to June 2021. In addition, the commitment was increased from \$75,000 to \$100,000. There was no outstanding balance at June 30, 2019 and 2018. Howard is paying a quarterly non-refundable commitment fee.

During the fiscal year, the University entered a Credit Agreement with Engie Inc. for short term financing related to rental of temporary boilers. Borrowings drawn on this credit facility is to bear interest at LIBOR plus a stated margin of 3.50%. As of June 30, 2019, a total of \$8,562 was outstanding. Subsequent to year-end, the financing was repaid in full.

(c) **Compliance with Contractual Covenants**

The 2011 Bond, 2016 Revenue Bonds and Revolving Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2018.

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	\$160 million

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At June 30, 2019 and 2018, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 and 2016 Revenue Bonds and the Revolving Credit Agreement.

(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	2019	2018
2019	\$ -	\$ 11,675
2020	22,299	13,736
2021	14,502	14,502
2022	15,316	15,316
2023	16,148	16,148
2024	17,066	17,066
2025 and thereafter	329,502	329,502
Subtotal	414,833	417,945
Bond discounts	(4,628)	(4,873)
Bond issuance costs	(4,199)	(4,428)
Total	\$ 406,006	\$ 408,644

(e) ***Bond Downgrade***

On October 12, 2018, S&P Global Ratings lowered its long-term and underlying ratings on Howard’s Series 2011A and 2011B bonds from BBB to BBB-.

The rating action reflects Howard’s placement on Heightened Cash Monitoring 2 (HCM2) status by the U.S. Department of Education (DOE). Note that subsequent to the year ended June 30, 2019, the DOE removed Howard from any Heightened Cash Monitoring.

13. 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.

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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.

During fiscal year 2017 there was a reduction to the life insurance benefits of future retirees for Howard plans which created a new prior service cost base of \$8,635 to be recognized starting in fiscal year 2018. Howard stopped including the value of fully-insured premium payments in both Employee contributions and Benefits paid from plan because the non-Class I post-65 retirees moved out of the Howard plan into an exchange. This had no impact on net obligations or net payments from the plan.

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 \$1,358 and \$1,383 at fiscal years ended June 30, 2019 and 2018, respectively. The amounts not yet reflected in operating expenses, but included in unrestricted net assets pertain to accumulated losses of \$966 and \$921 at June 30, 2019 and 2018, 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, 2019 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 active financial administrators: Teachers Insurance and Annuity Association/College Retirement Equities Fund, American International Group – Variable Annuity Life Insurance Company, and Voya Financial. Effective July 1, 2011 Lincoln Financial was replaced as a financial administrator by Voya Financial. While Lincoln Financial is no longer an active financial administrator of Howard, employees with investments with Lincoln are still allowed to hold their investments with Lincoln Financial. 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 \$20,726 and \$18,231 for fiscal years ended June 30, 2019 and 2018, respectively. The fair value of plan assets for the savings plan for fiscal years ended June 30, 2019 and 2018 were \$698,299 and \$982,470, respectively. These investments are held by Howard on behalf of its employees and excluded from the consolidated statements of financial position.

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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.

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, 2019 and 2018 are as follows:

Retirement Benefits	Pension		Medical and Life Insurance		Supplemental	
	2019	2018	2019	2018	2019	2018
Change in benefit obligation						
Projected benefit obligation at beginning of year	\$ 656,792	\$ 679,561	\$ 48,441	\$ 54,995	\$ 1,383	\$ 1,533
Service Cost	-	-	194	223	-	-
Interest Cost	27,804	26,610	2,047	2,140	56	57
Actuarial (gain)/loss	59,951	(8,085)	1,676	(6,110)	152	37
Benefits paid	(48,367)	(41,294)	(3,833)	(3,624)	(233)	(244)
Medicare Part D subsidy	-	-	74	-	-	-
Employee contributions	-	-	522	817	-	-
Projected benefit obligation at end of period	\$ 696,180	\$ 656,792	\$ 49,121	\$ 48,441	\$ 1,358	\$ 1,383
Change in plan assets:						
Fair value of plan assets at beginning of year	539,985	540,515	-	-	-	-
Actual return on plan assets	33,253	29,531	-	-	-	-
Employer contributions	14,287	11,233	3,237	2,807	-	-
Employee contributions	-	-	522	817	233	244
Medicare Part D subsidy	-	-	74	-	-	-
Benefits paid	(48,367)	(41,294)	(3,833)	(3,624)	(233)	(244)
Fair value of plan assets at end of period	\$ 539,158	\$ 539,985	\$ -	\$ -	\$ -	\$ -
Total	\$ (157,022)	\$ (116,807)	\$ (49,121)	\$ (48,441)	\$ (1,358)	\$ (1,383)

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Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at fiscal years ended June 30, 2019 and 2018:

Retirement Benefits	Pension		Medical and Life Insurance		Supplemental	
	2019	2018	2019	2018	2019	2018
Recognized in Statement of Activities						
Amortization of transition obligation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Amortization of prior service cost	100	100	-	-	-	-
Amortization of net actuarial loss	8,026	8,695	270	458	108	115
Total amortization	\$ 8,126	\$ 8,795	\$ 270	\$ 458	\$ 108	\$ 115
Service Cost	-	-	194	223	-	-
Interest Cost	27,804	26,610	2,047	2,140	56	57
Curtailement recognition of prior service credit	-	-	(7,639)	(13,314)	-	-
Expected return on plan assets	(30,724)	(30,975)	-	-	-	-
Recognized in operating expenses	\$ 5,206	\$ 4,430	\$ (5,128)	\$ (10,493)	\$ 164	\$ 172
Amortization of prior service cost	(100)	(100)	-	-	-	-
Amortization of net actuarial loss	(8,026)	(8,695)	(270)	(458)	(108)	(115)
Total amortization	\$ (8,126)	\$ (8,795)	\$ (270)	\$ (458)	\$ (108)	\$ (115)
Net actuarial (gain) loss during the year	57,423	(6,641)	1,676	(6,110)	152	37
Curtailement recognition of prior service credit	-	-	7,639	13,314	-	-
Total recognized in other changes in unrestricted net assets	\$ 49,297	\$ (15,436)	\$ 9,045	\$ 6,746	\$ 44	\$ (78)
Total recognized in Statements of Activities	\$ 54,503	\$ (11,006)	\$ 3,917	\$ (3,747)	\$ 208	\$ 94

Amounts included in unrestricted net assets at fiscal years ended June 30, 2019 and 2018:

Retirement Benefits	Pension		Medical and Life Insurance	
	2019	2018	2019	2018
Net actuarial loss	\$ (302,150)	\$ (252,754)	\$ (1,103)	\$ 303
Prior service cost	(2,201)	(2,301)	5,657	13,296
Total	\$ (304,351)	\$ (255,055)	\$ 4,554	\$ 13,599

The estimated net actuarial loss, prior service cost/(credit), 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 \$11,524, (\$1,389), and \$0, respectively.

Contributions to the pension plan of \$14,287 and \$11,233 were made in fiscal years ended June 30, 2019 and 2018, respectively. Contributions of \$14,264 are projected for fiscal year 2019.

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The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2019 and 2018 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2019	2018	2019	2018
Discount rate	3.62%	4.39%	3.64%	4.40%
Expected return on plan assets	7.00%	7.00%	0.00%	0.00%
Rate of compensation increase	-	-	3.50%	3.50%

The weighted average assumptions used to determine net periodic cost in the actuarial valuations for fiscal years ended June 30, 2019 and 2018 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2019	2018	2019	2018
Discount rate	4.39%	4.05%	4.40%	4.05%
Expected return on plan assets	7.00%	7.00%	0.00%	0.00%
Rate of compensation increase				
To age 35	-	-	3.50%	3.50%
Thereafter	-	-	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.

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Pension plan investments as of June 30, 2019 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	\$ -	\$ 14,259	\$ -	\$ 14,259
Commingled Funds				
Emerging Market Equity (3)		8,903		8,903
International Equity-Developed (3)		44,531		44,531
Global Fixed Income Securities (2)	9,285			9,285
Common Stock (3)	46,705			46,705
Fixed Income				
Mortgage Backed Securities (2)		14,279		14,279
Corporate Bond (2)		71,823		71,823
Government Bond (2)	85,788			85,788
Hedge Fund				
Credit Opportunities (4)		10,113		10,113
Equity Long/short (4)		19,768		19,768
Global opportunities (4)		6,914		6,914
Multi-strategy (4)			1	1
Mutual Fund				
Emerging Market Equity Security (3)	3,788			3,788
Domestic Common Stock (3)	28,603			28,603
Domestic Fixed Income (2)	71,970			71,970
Private Equity and Venture Capital (4)			60,177	60,177
Private Debt (4)	-	-	37,846	37,846
Real Estate (4)			60,636	60,636
Total assets	\$ 246,139	\$ 190,590	\$ 158,660	\$ 595,389
Liabilities:				
Financial Derivatives - Option Contracts	\$ -	\$ (2,542)	\$ -	\$ (2,542)
Total liabilities	\$ -	\$ (2,542)	\$ -	\$ (2,542)
Total pension plan investments	\$ 246,139	\$ 188,048	\$ 158,660	\$ 592,847
Operating asset not subjected to fair value reporting	55,696			55,696
Operating liabilities not subjected to fair value reporting	(103,507)			(103,507)
Total plan assets	\$ 198,328	\$ 188,048	\$ 158,660	\$ 545,036

Level 3 investments were 29% of total plan investments.

Refer to Note 6 – Fair Value Measurements for further explanation of financial instrument classifications.

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Pension plan investments as of June 30, 2018 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	\$ -	\$ 28,762	\$ -	\$ 28,762
Common/Collective Trusts				
Emerging Market Equity (3)	-	7,212	-	7,212
International Equity-Developed (3)	-	94,556	-	94,556
CommodityInflation Hedging (8)	-	11,901	-	11,901
Common Stock (3)	54,189	-	-	54,189
Fixed Income				
Mortgage Backed Securities (2)	-	4,481	-	4,481
Corporate Bond (2)	-	50,405	-	50,405
Government Bond (2)	54,573	-	-	54,573
Hedge Fund				
Credit Opportunities (4)	-	7,111	-	7,111
Equity Long/short (4)	-	9,991	-	9,991
Event Driven (4)	-	-	10	10
Global opportunities (4)	-	6,220	-	6,220
Multi-strategy (4)	-	-	2	2
Mutual Fund				
Emerging Market Equity Security (3)	8,682	-	-	8,682
Domestic Common Stock (3)	40,289	-	-	40,289
Domestic Fixed Income (2)	70,970	-	-	70,970
Private Equity and Venture Capital (4)	-	-	66,827	66,827
Real Estate (4)	-	-	27,611	27,611
Total assets	\$ 228,703	\$ 220,639	\$ 94,450	\$ 543,792
Liabilities:				
Financial Derivatives – Option Contracts	\$ -	\$ 247	\$ -	\$ 247
Total liabilities	\$ -	\$ 247	\$ -	\$ 247
Total pension plan investments	\$ 228,703	\$ 220,886	\$ 94,450	\$ 544,039
Operating asset not subjected to fair value reporting (9)	30,627	-	-	30,627
Operating liabilities not subjected to fair value reporting (9)	(32,993)	-	-	(32,993)
Total plan assets	\$ 226,337	\$ 220,886	\$ 94,450	\$ 541,673

Level 3 investments were 17% of total plan investments.

Refer to Note 6 – Fair Value Measurements for further explanation of financial instrument classifications.

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(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, 2019.

CHANGES IN LEVEL 3 FOR THE PERIOD ENDED JUNE 30, 2019	PRIVATE EQUITY / DEBT	HEDGE FUNDS	REAL ESTATE	TOTAL
Balance July 1, 2018	\$ 66,827	\$ 12	\$ 27,611	\$ 94,450
Gain and loss (realized and unrealized)	8,094	(11)	6,384	14,467
Purchases	57,932	-	30,504	88,436
Transfer out and sales	(34,831)	-	(3,862)	(38,693)
Balance at June 30, 2019	\$ 98,022	\$ 1	\$ 60,637	\$ 158,660
Change in unrealized investments held	\$ (27)	\$ (1)	\$ 4,834	\$ 4,806

The following table presents changes in amounts for financial instruments classified within Level 3 of the valuation hierarchy as previously defined, at June 30, 2018.

CHANGES IN LEVEL 3 FOR THE PERIOD ENDED JUNE 30, 2018	PRIVATE EQUITY / DEBT	HEDGE FUNDS	REAL ESTATE	TOTAL
Balance July 1, 2017	\$ 67,921	\$ 46	\$ 15,867	\$ 83,333
Gain and loss (realized and unrealized)	6,252	(34)	3,775	9,993
Purchases	9,444	-	13,190	22,634
Transfer out and sales	(16,790)	-	(5,222)	(22,011)
Balance at June 30, 2018	\$ 66,827	\$ 12	\$ 27,611	\$ 94,450
Change in unrealized investments held	\$ 2,885	\$ (21)	\$ 2,702	\$ 5,566

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, 2019 and 2018. 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, 2019	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds	\$ 36,967	\$ 680	Monthly - Annually	45 - 90 days
Real estate funds	60,636	16,790	-	1 - 5 years
Common/collective trusts	62,736	-	Monthly	-
Limited partnerships	98,022	58,519	-	≤ 10 years

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INVESTMENTS AS OF JUNE 30, 2018	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds	\$ 24,333	\$ -	Monthly - Annually	45 - 90 days
Real estate funds	27,611	28,128	-	2 - 10 years
Common/collective trusts	113,686	-	Monthly	-
Limited partnerships	66,827	30,335	-	≤ 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.

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

PENSION PLAN ASSET ALLOCATION	2019	2018	Allowable Range
Mid-Large Cap U.S. Equity	9.9%	9.7%	7-23%
Small Cap U.S. Equity	2.5%	3.8%	1-5%
International Equity - Developed	8.2%	16.8%	7-17%
Private Equity/Venture Capital	10.3%	11.7%	2-20%
Private Debt	6.5%	-%	2-8%
Hedge Funds	6.7%	4.5%	1-5%
Inflation Hedging	2.6%	6.9%	1-5%
Emerging Markets Equity	3.3%	3.4%	2-8%
Real Estate	10.9%	4.5%	3-11%
Liability Hedging Assets	34.3%	36.9%	25-45%
Cash and Cash Equivalents	4.8%	1.7%	0-5%
Total	100%	100%	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2019 is 6.09%. This growth rate was assumed to decrease gradually to 4.5% in 2038 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.

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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:				
2020	48,116	3,647	127	3,774
2021	47,862	3,584	122	3,706
2022	47,588	3,523	117	3,640
2023	46,978	3,432	111	3,543
2024	46,269	3,336	104	3,440
Years 2025-2029	216,238	15,444	429	15,873
Total	\$ 453,051	\$ 32,966	\$ 1,010	\$ 33,976

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%

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14. Net Assets

Net assets with donor restrictions are restricted for the following purposes as follows at June 30:

NET ASSETS WITH DONOR RESTRICTIONS	2019	2018
Subject to expenditure or use for specified purpose:		
Scholarships	\$ 22,104	\$ 20,057
Professorships	18,078	16,846
Student loans	2,492	2,219
Federal term endowment	157,649	144,119
General operations and other	28,335	23,988
Total subject to expenditure for specified purpose	\$ 228,658	\$ 207,229
Funds to be held in perpetuity and subject to time restriction:		
Subject to time restrictions	\$ 2,895	\$ 3,646
To be held in perpetuity	148,426	142,187
Total funds to be held in perpetuity and subject to time restriction	\$ 151,321	\$ 145,933
Endowments subject to spending policy and appropriation:		
Scholarships	\$ 39,725	\$ 40,953
Professorships	21,691	22,566
Student loans	(215)	1
General operations and other	12,520	17,014
Total endowments subject to spending policy and appropriation	\$ 73,721	\$ 80,534
Total net assets with donor restrictions	\$ 453,700	\$ 433,696

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 net assets without donor restriction at the end of each 20 year period. For fiscal years ended June 30, 2019 and 2018, the transfer amounts were \$0 and \$719, respectively.

For the fiscal years ended June 30, 2019 and 2018, net assets without donor restriction were \$217,376 and \$233,839, respectively. Net assets without donor restrictions include board-designated and non-board designated amounts. Any revenue or expense transactions funded by contributions or sources that have no external donor restrictions are classified as non-board designated amounts.

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Net assets without donor restrictions include board-designated funds as follows at June 30:

NET ASSETS WITHOUT DONOR RESTRICTIONS	2019	2018
Non-board designated	\$ 203,772	\$ 157,545
Board designated	13,604	76,294
Total	\$ 217,376	\$ 233,839

Release of net assets with 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, 2019 and 2018 are as follows:

NET ASSETS RELEASED FROM RESTRICTIONS	2019	2018
Federal term	\$	\$ 2,566
Restrictions released based on purpose:		
Scholarships and fellowships	3,720	3,491
Professorships	1,317	1,513
Student loans	129	162
General operations and other	3,110	2,791
Total	\$ 8,276	\$ 10,523

15. Functional Expenses

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.

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Consolidated Statements of Functional Expenses For year ended June 30, 2019 <i>(in thousands)</i>	Academic and Research	Healthcare Services	Administrative Support	Total
Operating expenses:				
Compensation	\$ 213,119	\$ 175,535	\$ 48,661	\$ 437,315
Medical and office supplies	6,160	32,504	2,517	41,181
Repairs and maintenance	2,948	193	3,089	6,230
Food service costs	449	-	14,061	14,510
Grant subcontracts	15,545	-	239	15,784
Insurance and risk management	10,870	1,222	2,514	14,606
Professional and administrative services	11,908	49,254	35,262	96,424
Other costs	68,035	2,483	71,010	141,528
Total operating expenses before interest, depreciation, and amortization	329,034	261,191	177,353	767,578
Interest expense	10,896	3,758	12,796	27,450
Depreciation	21,336	12,842	12,989	47,167
Amortization of retirement plan actuarial losses	-	2,333	6,061	8,394
Interest, depreciation, and amortization	32,232	18,933	31,846	83,011
Total operating expenses	\$ 361,266	\$ 280,124	\$ 209,199	\$ 850,589

Consolidated Statements of Functional Expenses For year ended June 30, 2018 <i>(in thousands)</i>	Academic and Research	Healthcare Services	Administrative Support	Total
Operating expenses:				
Compensation	\$ 187,572	\$ 179,226	\$ 45,666	\$ 412,464
Medical and office supplies	6,063	27,381	1,725	35,169
Repairs and maintenance	2,964	1,264	6,952	11,180
Food service costs	1,114	-	15,259	16,373
Grant subcontracts	15,029	-	6	15,035
Insurance and risk management	11,564	2,030	2,590	16,184
Professional and administrative services	10,434	59,318	31,991	101,743
Other costs	50,286	1,384	59,966	111,636
Total operating expenses before interest, depreciation, and amortization	285,026	270,603	164,155	719,784
Interest expense	7,520	4,117	11,332	22,969
Depreciation	15,894	8,251	15,669	39,814
Amortization of retirement plan actuarial losses	-	2,687	6,566	9,253
Interest, depreciation, and amortization	23,414	15,055	33,567	72,036
Total operating expenses	\$ 308,440	\$ 285,658	\$ 197,722	\$ 791,820

16. 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.

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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 2018-2019
 Medicaid 2018-2019

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an decrease in net patient service revenues of approximately \$1,271 for fiscal year ended June 30, 2019 and an increase of approximately \$6,467 for fiscal year ended June 30, 2018,.

THIRD-PARTY SETTLEMENT REVENUE	2019	2018
Medicare pass-through	\$ 10,212	\$ 11,519
Disproportionate Share Hospital	50,461	38,755
Graduate and Indirect Medical Education	8,195	9,682
Other	115	353
Total third-party settlement revenue	\$ 68,983	\$ 60,309

17. 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 costs foregone for services furnished under the Hospital’s charity care policy and the DC Alliance program were \$4,143 and \$3,620 for fiscal years ended June 30, 2019 and 2018, respectively.

Total uncompensated care costs under all of Howard’s clinical services, which includes implicit price concessions on self-pay accounts (bad debt) as well as charity care, for fiscal years ended June 30, 2019 and 2018 were \$59,888 and \$52,759, respectively.

18. Insurance and Risk Management

Howard, along with 17 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

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its shareholders. On January 1, 2016, Genesis merged into Pinnacle. At June 30, 2019, 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.

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	2019	2018
Malpractice claims expense	\$ 2,927	\$ 6,153
Malpractice excess insurance	2,025	1,430
Student health	10,659	11,004
General and other	3,906	3,659
Totals	\$ 19,517	\$ 22,246

19. 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 cash account as of June 30, 2019.

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

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potentially subject Howard to market risk consist primarily of investments. Howard attempts to mitigate this risk through its investment strategy.

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, 2019 and 2018 Howard reserved \$3,850 and \$2,450, 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 1,307 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

21. Related Party Transactions

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

The 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. For fiscal years ended June 30, 2019 and 2018, Howard has contributed to the Middle School as follows:

RELATED PARTY TRANSACTIONS	2019	2018
Cash operating support	\$ 1,000	\$ 500
Facility leased (market value)	1,451	1,451
Total	\$ 2,451	\$ 1,951

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(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, 2019 and 2018, the consolidated statements of financial position for the LLC are as follows:

HOWARD DIALYSIS CENTER, LLC STATEMENTS OF FINANCIAL POSITION	2019	2018
Total Assets	\$ 11,481	\$ 10,625
Total Liabilities	\$ 1,923	\$ 925
Equity		
Partner	5,086	5,086
Retained earning	4,471	4,615
Total Equity	\$ 9,557	\$ 9,701
ARA interest	\$ 4,766	\$ 4,948
Howard interest	\$ 4,781	\$ 4,753

(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. No such payments were received in fiscal year 2019. 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, 2019 or 2018.

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

The University engaged Barnes & Noble College Booksellers, LLC to manage and operate its bookstore. The original relationship was 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. In January 2019, the parties agreed to exercise an option to renew the agreement from April 1, 2019 through March 31, 2024.

(e) ***Campus Apartments***

In August 2014, The University 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 signed a five year Management Service Agreement (MSA) with Paladin Healthcare, effective October 1, 2014, with an option to extend the agreement for an additional five years. On that date, Paladin Healthcare assumed responsibility for day-to-day operations of the Hospital under the oversight of a joint Howard and Paladin Healthcare Management Committee, while Howard continued to be the licensed operator of the Hospital. The MSA was terminated as of April 30, 2019.

(g) ***Corvias Campus Living – HU, LLC***

In January, 2017, the University, Howard Dormitory Holdings 1, LLC, a wholly-owned subsidiary of Howard University and Corvias Campus Living – HU, LLC entered into a 40 year term service concession agreement. Under this agreement, Corvias Campus Living – HU, LLC handled the financing, design, engineering, renovation, management, operation, maintenance, and repair of the East Tower, the West Tower, Drew Hall and Cook Hall. The University and Howard SPE pledged all revenues from these properties to Corvias Campus Living. As part of this agreement, Corvias Campus Living – HU, LLC, entered into a construction contract with Gilbane Building Company for the renovation of the East Tower and the West Tower, which were completed in fall of 2018.

(1) ***Residence Life Service Provider*** – In January 2017, as part of the aforementioned service concession agreement, Corvias Campus Living – HU, LLC entered into a 40 year term Residence Life Management Agreement with Corvias Campus Management, Inc., an independent contractor, to manage on its behalf, any and all of the residence life duties and responsibilities relating to the East Tower, the West Tower, Drew Hall and Cook Hall. In compensation for the performance of its duties under this Agreement, the Residence Life Service Provider will be paid the Residence Life

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Management Fee as set forth in Section 6.3 of the Service Concession Agreement escalating by three percent (3%) per annum on the first day of each Fiscal Year of the Term. In August 2018, this relationship was expanded such that Corvias will manage any and all residence life duties and responsibilities for the University's central office of residence life (inclusive of the Annex). Management of the central office of residence life was transferred back to Howard in October of 2019.

(h) **211 Elm Street, LLC**

In August 2017, the University (Lessor) entered into a ninety-nine (99) year Ground Lease related to land under the Carver Hall dormitory with 211 Elm Street, LLC (Lessee) for the conversion of the dormitory into a rental apartment building with supporting indoor amenity spaces and enhanced outdoor amenity spaces. The lessee prepaid all Ground Rent for the ninety-nine (99) year term of the Ground Lease. If, over the term of the Ground Lease there is a substantial change in use of the Property, the parties will negotiate a reset of the lease based on the incremental value derived from the new project. The lessee will assume all risks associated with zoning, historic preservation and other regulatory approvals.

(i) **1919 3rd Street, LLC**

In August 2017, the University (Lessor) entered into a ninety-nine (99) year Ground Lease related to land under the Slowe Hall Dormitory with 1919 3rd Street, LLC (Lessee) for the conversion of the dormitory into a rental apartment building with supporting indoor amenity spaces and enhanced outdoor amenity spaces. The lessee prepaid all Ground Rent for the ninety-nine (99) year term of the Ground Lease. If, over the term of the Ground Lease there is a substantial change in use of the Property, the parties will negotiate a reset of the lease based on the incremental value derived from the new project. The lessee will assume all risks associated with zoning, historic preservation and other regulatory approvals.

(j) **9th and W Owner, LLC**

In June 2019, the University (Lessor) entered into a ninety-nine (99) year transaction to ground lease the land at 9th and V Street and the related meaningful connection to the 930 Club building to 9th AND W Owner, LLC (Lessee).. The development project consists of constructing an approximately 257,000 square foot 10 story building with a penthouse for mixed-use purposes that would include market rate and affordable units along with ground floor retail space. The lessee will assume all risks associated with zoning, historic preservation and other regulatory approvals. At the end of the lease term, the property and all improvements revert back to Howard University (see Note 11-*Lease Income*).

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(k) ***Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc.***

In March 2019, the University, and Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc. entered into a 40 year term agreement. Under this agreement, Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc. will handle the financing, design, engineering, renovation, management, operation, maintenance, and repair of the Tubman Quad. The University pledged all revenues from these properties to Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc.

(l) ***ENGIE North America, Inc.***

In October 2018, Howard entered into a term loan agreement with ENGIE North America Inc. to provide bridge financing for up to \$9,700 to cover costs in connection with repairs to the steam distribution tunnel and temporary boiler rental costs incurred for the temporary heating solutions during the 2017-2018 academic year. The bridge financing was paid in full subsequent to year end.

In October 2018, Howard entered into a Consulting Services Agreement with ENGIE Development, LLC (EDL). EDL provides advisory and consulting services related to the design and, in collaboration with Howard, implementation of a temporary heating solution for Howard’s main campus for the 2018-2019 school year. As part of the agreement, EDL provided a proposal for the long-term overhaul, modernization and ongoing operation of the steam plant and its related facilities including a financing plan for implementation. The proposal is under review and Howard has not decided on the partner to complete the project.

(m) ***Howard Center Project***

In November 2018, Howard entered into a 50 year lease with Provident Group-Howard Center, Inc. (“Lessee”) for seven (7) tracts of the Howard Center Project. (see Note 11-Leases for additional information). In November 2018, Howard and Provident Group-Howard Center, Inc. entered into a management agreement such that the University will manage the day-to-day operation, management, maintenance and repair of the Howard Center Project. Under a sub-management agreement, Howard assigned and delegated its management rights and responsibilities for the Howard Center Project to Corvias Management, LLC.

(n) ***It’s My Corner, LLC***

The University entered into a Participation Agreement with It’s My Corner, LLC (IMC) for the transfer and development of the certain property located on Florida Avenue. HU was the owner of real property located on Florida Avenue, NW, Washington, DC. IMC also owned real property located on Florida Avenue, NW, Washington, DC. The properties were combined and will be developed by IMC as a mixed use project with a new building.

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The University has received a 24% equity share in the combined properties that is subject to adjustments if the timing of the commencement of construction for the project is has not occurred within 36 calendar months after the date that the deed was recorded and if the construction is not substantially completed within 36 calendar months after commencement. With all potential adjustments, the University's equity share shall not exceed 45%.

IMC has also granted the University a right of first offer to purchase the combined properties prior to any efforts by IMC to sell or market the project.

22. Subsequent Events

- (a) In April 2018, the Department of Education began an extensive program review and, in August 2018, elected to place Howard University on Heightened Cash Monitoring 2 status to closely monitor the institution's financial aid management. On June 27, 2019, Howard University was removed from the Heightened Cash Monitoring 2 (HCM2) method of payment and elevated to Heightened Cash Monitoring 1 (HCM1). On December 16, 2019, the Department of Education notified Howard University that it has been removed from the Heightened Cash Monitoring (HCM1) method of payment. Howard has been returned to the advanced method of payment, effective immediately. Under this new method of payment, Howard may now draw down Title IV funds without approval from the Department of Education and is no longer required to make disbursements to eligible students with institutional funds before drawing down funds.
- (b) In July 2019, the University, and Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc. entered into a 40 year term agreement. Under this agreement, Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc. will handle the financing, design, engineering, renovation, management, operation, maintenance, and repair of the Tubman Quad. The University pledged all revenues from these properties to Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc.