The Howard University

Consolidated Financial Statements

For Fiscal Years Ended June 30, 2017, 2016, and 2015

Page(s)

HOWARD
UNIVERSITY

Office of the Senior Vice President
Chief Financial Officer and Treasurer

Report of Treasurer on Financial Statements

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

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

Furthermore, I hereby certify that The Howard University, as Borrower under separate agreements with certain banks and lending institutions, is in compliance with the respective financial covenants as of June 30, 2017, as described in Note 11 of the accompanying 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

November 21, 2017

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Independent Auditor's Report

Board of Trustees
The Howard University
Washington, DC

We have audited the accompanying consolidated financial statements of The Howard University, which comprise the consolidated statements of financial position as of June 30, 2017, 2016, and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Howard University as of June 30, 2017, 2016, and 2015, 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.

Report on Summarized Comparative Information

We have previously audited The Howard University's 2016 and 2015 consolidated financial statements, and we expressed unmodified opinions on those consolidated financial statements in our reports dated November 23, 2016 and December 10, 2015, respectively. In our opinion, the summarized comparative information presented herein as of and for the years ended June 30, 2016 and 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

BDO USA, LLP

November 21, 2017

Statements of Financial Position June 30, 2017, 2016 and 2015 *(in thousands)*	2017	2016	2015
Current assets:			
Cash and cash equivalents	$ 28,900	$ 45,294	$ 22,522
Operating investments	39,851	34,433	36,333
Deposits with trustees	401	348	137
Receivables, net	89,730	147,678	65,278
Inventories, prepaids and other current assets	8,579	11,904	10,701
Restricted Investments	43,911	37,820	45,911
Total current assets	**211,372**	**277,477**	**180,882**
Long term assets:			
Deposits with trustees	15,058	14,303	14,120
Receivables, net	21,659	76,657	53,729
Inventories, prepaids and other noncurrent assets	22,695	22,717	11,835
Unexpended bond proceeds	3,038	5,027	10,440
Restricted investments	3,302	3,152	2,190
Endowment investments	646,556	577,132	590,659
Operating right of use assets	4,599	3,958	4,886
Finance right of use assets	25,930	30,401	36,012
Long-lived assets	517,955	554,690	593,336
Total long term assets	**1,260,792**	**1,288,037**	**1,317,207**
Total assets	**$ 1,472,164**	**$ 1,565,514**	**$ 1,498,089**
Current liabilities:			
Accounts payable and accrued expenses	$ 99,542	$ 97,982	$ 141,850
Deferred revenue	15,097	107,391	14,081
Other liabilities	12,119	10,022	12,809
Accrued post retirement benefits	4,325	4,505	4,293
Reserves for self-insured liabilities	16,752	6,918	11,543
Notes payable	-	-	98,971
Finance lease obligations	3,520	6,570	8,754
Bonds payable	12,101	1,602	1,838
Total current liabilities	**163,456**	**234,990**	**294,139**
Long term liabilities:			
Deferred revenue	762	1,175	-
Other liabilities	5,318	15,267	18,216
Accrued post retirement benefits	50,670	63,103	59,145
Underfunded defined benefit pension plan	139,046	166,678	130,128
Reserves for self-insured liabilities	57,462	80,293	83,005
Operating lease obligations	4,099	14,491	16,237
Finance lease obligations	25,595	18,475	24,734
Bonds payable	398,865	444,537	286,453
Refundable advances under Federal Student Loan Program	6,341	6,390	6,827
Total long term liabilities	**688,158**	**810,409**	**624,745**
Total liabilities	**851,614**	**1,045,399**	**918,884**
Net Assets:			
Unrestricted	222,165	155,513	200,180
Temporarily restricted	265,935	236,353	250,919
Permanently restricted	132,450	128,249	128,106
Total net assets	**620,550**	**520,115**	**579,205**
Total liabilities and net assets	**$ 1,472,164**	**$ 1,565,514**	**$ 1,498,089**

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

Statements of Activities June 30, 2017 (with summarized comparative information for June 30, 2016 and 2015) *(in thousands)*	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2017	Summarized June 30, 2016	Summarized June 30, 2015
Operating						
Revenues and reclassifications:						
Academic services:						
Tuition and fees, net	$ 147,867	$ -	$ -	$ 147,867	$ 155,453	$ 154,068
Grants and contracts	53,763	-	-	53,763	56,379	64,450
Auxiliary services	40,960	-	-	40,960	52,481	53,998
Clinical services:						
Patient service - Hospital, net	231,499	-	-	231,499	228,075	230,915
Patient service - Faculty medical practice, net	12,854	-	-	12,854	27,012	25,401
Patient service - Dental clinic, net	1,972	-	-	1,972	1,594	2,450
Public support:						
Federal appropriation	218,416	3,405	-	221,821	221,821	212,035
Contributions	5,265	7,578	2,896	15,739	10,555	12,442
Endowment transfer	6,954	7,665	509	15,128	14,274	13,718
Operating investment income (loss)	5,270	-	-	5,270	(1,015)	966
Other income	16,290	-	-	16,290	16,447	16,505
Total revenues	**741,110**	**18,648**	**3,405**	**763,163**	**783,076**	**786,948**
Net assets released from restrictions	19,465	(19,465)	-	-	-	-
Total revenues and reclassifications	**760,575**	**(817)**	**3,405**	**763,163**	**783,076**	**786,948**
Expenses:						
Program services:						
Instruction	200,737	-	-	200,737	193,405	207,796
Research	40,555	-	-	40,555	40,136	42,375
Public service	11,079	-	-	11,079	11,221	12,500
Academic support	36,441	-	-	36,441	38,700	41,768
Student services	30,037	-	-	30,037	30,605	29,862
Patient care	241,131	-	-	241,131	245,368	276,988
Total program services	**559,980**	**-**	**-**	**559,980**	**559,435**	**611,289**
Supporting services:						
Institutional support	169,187	-	-	169,187	144,968	163,103
Auxiliary enterprises	65,635	-	-	65,635	67,053	67,756
Total supporting services	**234,822**	-	-	**234,822**	**212,021**	**230,859**
Total operating expenses	**794,802**	**-**	**-**	**794,802**	**771,456**	**842,148**
Income from defeased bonds	33,105	-	-	33,105	-	-
Operating revenues over (under) operating expenses	**(1,122)**	**(817)**	**3,405**	**1,467**	**11,620**	**(55,200)**
Non-operating						
Investment income (loss) in excess of amount designated for operations	41,152	39,108	445	80,705	(15,171)	5,134
Endowment transfer	(6,257)	(8,709)	(162)	(15,128)	(14,274)	(13,718)
Net unrealized gain in beneficial interest trust	-	-	513	513	-	-
Restructuring costs	118	-	-	118	(44)	(10,502)
Change in funded status of defined benefit pension plan	32,753	-	-	32,753	(40,712)	(31,973)
Change in obligation for post-retirement benefit plan	(100)	-	-	(100)	(19,244)	(5,530)
Change in funded status of supplemental retirement plan	107	-	-	107	142	-
Gain on property/land sale	-	-	-	-	18,581	-
Other items, net	-	-	-	-	12	46
Increase (decrease) in non-operating activities	**67,773**	**30,399**	**796**	**98,968**	**(70,710)**	**(56,543)**
Change in net assets	**66,652**	**29,582**	**4,201**	**100,435**	**(59,090)**	**(111,743)**
Net assets, beginning of year	**155,513**	**236,353**	**128,249**	**520,115**	**579,205**	**690,948**
Net assets, end of year	**$ 222,165**	**$ 265,935**	**$ 132,450**	**$ 620,550**	**$ 520,115**	**$ 579,205**

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

Statements of Cash Flows **June 30, 2017, 2016 and 2015** *(in thousands)*	**June 30, 2017**	**June 30, 2016**	**June 30, 2015**
Cash flows from operating activities			
Change in net assets	$ 100,435	$ (59,090)	$ (111,743)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by/(used in) operating activities:			
Depreciation and amortization	50,154	44,883	51,596
Bonds defeased	(33,105)	-	-
Bond discount amortization	223	221	235
Bonds issuance costs	254	(374)	215
Net realized gain on investments	(47,384)	(15,955)	(29,417)
Unrealized (gain) loss on investments	(38,591)	36,720	32,910
Loss (gain) on sale/disposal of long-lived assets	1,210	(18,581)	133
Change and/or remeasurement of leases	2,714	-	-
Change in deposits with trustees	(808)	(394)	(404)
Change in receivables (excluding notes)	105,464	(98,208)	4,254
Change in allowance for doubtful receivables	6,743	(6,885)	6,136
Change in inventory, prepaid expenses and other assets	3,347	(12,085)	1,891
Change in Operating right of use assets	(641)	-	-
Change in accounts payable and accrued expenses and other	1,559	(43,837)	20,395
Change in deferred revenue	(92,707)	94,485	4,081
Change in other liabilities	(7,852)	(2,141)	(650)
(Decrease) increase in pension/post retirement liability	(40,245)	40,720	15,635
Change in reserve for self-insured liabilities	(12,997)	(7,338)	7,918
Change in refundable advances under Federal Student Loan Program	(49)	(437)	458
Net cash and cash equivalents provided by/(used in) operating activities	**(2,276)**	**(48,296)**	**3,643**
Cash flows from investing activities			
Proceeds from sale of investments	481,023	397,929	343,516
Purchases of investments	(476,131)	(396,138)	(346,287)
Return on unexpended bond proceeds	1,989	5,413	35,885
Proceeds from property/land sale	-	23,035	-
Purchases and renovations of long-lived assets	(12,248)	(8,946)	(45,870)
Restricted contributions	(2,881)	(6,832)	(1,548)
Net cash and cash equivalents (used in)/provided by investing activities	**(8,248)**	**14,461**	**(14,304)**
Cash flows from financing activities			
Proceeds from notes payable	15,000	88,000	30,000
Payment on notes payable	(15,000)	(186,971)	(1,476)
Proceeds from bonds payable	-	160,000	-
Payment on bonds payable	(2,545)	(1,998)	(576)
Principal payments on financing lease obligations	(6,945)	(9,170)	(10,637)
Student loans issued	(825)	(726)	(1,218)
Student loans collected	1,564	640	722
Proceeds from restricted contributions	2,881	6,832	1,548
Net cash and cash equivalents (used in)/provided by financing activities	**(5,870)**	**56,607**	**18,363**
Net (decrease) increase in cash and cash equivalents	(16,394)	22,772	7,702
Cash and cash equivalents at beginning of year	45,294	22,522	14,820
Cash and cash equivalents at end of period	**$ 28,900**	**$ 45,294**	**$ 22,522**
Supplemental cash flow information:			
Cash paid for interest	$ 21,650	$ 25,525	$ 24,513
Supplemental non-cash investing activities:			
Acquisition of equipment under financing leases	6,784	1,655	-
Stock distributions	1,560	344	-
Supplemental non-cash financing activities:			
Donated securities	-	-	215

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

Note 1 Summary of Significant Accounting Policies

(a) *Description of the University*

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

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

The 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. As of June 30, 2017, 2016 and 2015, Howard had no unrelated business income and therefore had no deferred tax assets or liabilities.

In addition, Howard analyzed its tax positions for the years ended June 30, 2017, 2016 and 2015, 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 years ended June 30, 2016 and 2015. Such summarized information is prepared in a manner consistent with the statement of activities information from which it was derived.

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

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

(d) ***Cash and Cash Equivalents***

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

> ***Operating Investments*** – represent investments free of any donor or lender imposed restrictions. These investments are short-term in nature and can be liquidated at the discretion of the Board of Trustees (the "Board") to meet operational demands.
>
> ***Restricted Investments*** – represent non-endowed investments whose principal and or income are restricted by external sources, including liquidation restrictions. The use of the principal and interest of these investments is not subject to the discretion of the Board and as such they are not available to meet the operational needs of the University.
>
> ***Endowment Investments*** – represent the pooled endowment and the Federal matching endowment investments. The endowment investments are spread across various asset categories with the use of the income from these investments restricted based on stated donor stipulations.

The fair values of Howard's investments are determined by the most relevant available and observable valuation inputs as defined in Note 5. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based upon average historical value (cost of securities purchased or the fair market value at date of gift, if received by donation). Dividend and interest income are recorded on an accrual basis. Accrued but unpaid dividends, interest and proceeds from investment sales at the report date are recorded as investment receivables.

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

(1) **Contributions** are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the gift date. Howard has elected not to recognize or capitalize contributions of works of art, historical treasures, and similar assets held as part of collections. Contribution revenue for fiscal years ended June 30, 2017, 2016 and 2015 are shown below:

Contributions Revenue	**2017**	**2016**	**2015**
Unrestricted	$ 5,265	$ 4,156	$ 4,970
Temporarily restricted	7,578	(433)	5,924
Permanently restricted	2,896	6,832	1,548
Total contributions revenue	**$ 15,739**	**$ 10,555**	**$ 12,442**

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.

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 recognized in the following fiscal year due to summer sessions between May and July crossing fiscal years. To incentivize students to earn their degree early or on-time, the University has established a tuition rebate, whereby on-time or early graduates are 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.

Student receivables represent unpaid tuition and fees assessed in current and prior periods that are generated when a student registers for classes through the University's formal registration process. Howard maintains a policy of offering qualified applicants admission to the University without regard to financial circumstance. Student financial aid is generally fulfilled through a combination of scholarships, fellowships, loans and employment during the academic year. Tuition and fees are recorded net of discounts for scholarships (merit, talent, and need based), fellowships, graduate remission and employee tuition remission. Funding for financial aid may come from donor designated sources or from unrestricted operations and assets. Financial aid for fiscal years ended June 30, 2017, 2016 and 2015 was $99,275, $101,434 and $110,239, respectively.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Net Tuition Revenue	**2017**	**2016**	**2015**
Gross tuition and fees	**$ 247,142**	**$ 256,887**	**$ 264,307**
Financial aid:			
Merit	57,775	64,115	64,925
Need	15,083	15,142	18,967
Talent	8,174	6,304	6,861
Other	18,243	15,873	19,486
Total financial aid	**$ 99,275**	**$ 101,434**	**$ 110,239**
Total net tuition	**$ 147,867**	**$ 155,453**	**$ 154,068**

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

(3) **Federal appropriation** revenue is recognized when received and expended. Howard receives a Federal appropriation that can be used for support of the University's educational mission, a portion of which is held as a temporarily restricted term endowment which is required to be held for 20 years. For fiscal years ended June 30, 2017, 2016 and 2015, Howard received 29%, 28% and 27%, respectively, of its revenue support from the Federal appropriation. The $3,405, $4,302 and $3,405, receivable for the fiscal years ended June 30, 2017, 2016, and 2015, respectively, represents the portion to be collected on the Federal term endowment as defined in Note 13.

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Net Patient Service Revenue	2017	2016	2015
Gross Revenues	**$ 682,710**	**$ 645,624**	**$ 659,509**
Third-party settlement revenue	63,702	46,637	58,716
Contractual allowances and adjustments	(444,653)	(411,404)	(417,326)
Charity services	(4,200)	(5,356)	(5,194)
Bad debt	(51,234)	(18,820)	(36,939)
Total net patient service revenue	**$ 246,325**	**$ 256,681**	**$ 258,766**
% of contractuals and charity services of gross revenues	**66%**	**65%**	**64%**

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

Grants and contracts revenue	2017	2016	2015
Reimbursement of direct expenses	$ 45,439	$ 48,324	$ 55,608
Recovery of indirect costs	8,324	8,055	8,842
Total grants and contracts revenue	**$ 53,763**	**$ 56,379**	**$ 64,450**
Indirect costs recovery as a % of direct costs	**18%**	**17%**	**16%**

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

Grants and contracts revenue by type	2017	2016	2015
Research	$ 35,688	$ 34,178	$ 34,590
Training	9,490	12,188	16,427
Service/other	8,585	10,013	13,433
Total grants and contracts revenue by type	**$ 53,763**	**$ 56,379**	**$ 64,450**

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Auxiliary services revenue	**2017**	**2016**	**2015**
Student housing	$ 12,925	$ 23,622	$ 24,913
Meal plans	12,841	14,141	13,145
Radio station	8,461	9,900	11,507
Bookstore	672	706	665
Property rentals	2,059	1,503	1,508
Parking fees	1,875	923	657
Vending sales and fees	888	544	752
Ticket sales	537	432	303
Licensing	109	72	79
Other	593	638	469
Total auxiliary services revenue	**$ 40,960**	**$ 52,481**	**$ 53,998**

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

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

(g) ***Changes in Accounting Principle***

ASU 2015-03 – Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs requires that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability. The ASU was effective for fiscal years beginning after December 15, 2015. This is a change from previous treatment where debt issuance costs were reported as an asset in the statement of financial position. For fiscal years ending 2017, 2016 and 2015, Howard has debt issuance costs related to the 2010, 2011 and 2016 bonds of $4,683, $4,937 and $4,563, respectively. In fiscal year 2017, Howard adopted the new principle and has in accordance, reclassed the debt issuance costs from other assets and deducted it from the bonds payable liability.

In fiscal year 2016 Howard completed an early adoption of *ASU 2016-02 - Leases*, which is a change in accounting principle. See Note 10 for a description of the impact of this change on the financial statements.

(h) ***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, beneficial interest trust and investment interest in a dialysis joint venture (see Note 22).

(i) ***Long-Lived Assets***

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

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

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

Title to certain equipment purchased using funds provided by government grants or contracting agencies is vested with Howard, and therefore is included in reported property balances.

Interest costs eligible for capitalization are the costs of restricted borrowings, less any interest earned on temporary investment of the proceeds of those borrowings, from the date of borrowing until qualifying assets are intended for use.

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

(j) ***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, 2017, 2016, and 2015 the obligation was $4,444, $5,283 and $5,848, respectively.

(k) ***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.

(l) ***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.

(m) ***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.

(n) ***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.

(o) ***Net Assets***

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

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

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

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

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

(p) ***Measure of Operations***

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

(q) ***New Accounting Pronouncements***

In July 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) number 2017-11 (Topic 815), *Derivatives and Hedging*. The ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Howard is currently evaluating Topic 815 and planning for the implementation in fiscal year 2018.

In March 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2017-07 (Topic 715*), Compensation—Retirement Benefits,* which provides guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets. The Update requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It allows only the service cost component to be eligible for capitalization when applicable. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the date of each statement of financial position presented. Howard is currently evaluating and assessing the implementation of this new pronouncement, which will be adopted in fiscal year 2019.

In February 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2017-05 (Topic 610-20), *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets,* which provides clarity to the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. The amendments define the term *in substance nonfinancial asset*, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20. Howard is currently evaluating and assessing ASU number 2017-05 to determine whether it applies to its operations.

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2017-02 (Subtopic 958-810), *Not-for-Profit Entities—Consolidation*. The ASU provides guidance on when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. 2015-02 are effective. Subtopic 958-810 provides general guidance in Subtopic 810-10 on when NFP limited partners should consolidate a limited partnership. The update applies to an NFP that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity. A similar legal entity is an entity such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. In those entities, a managing member is the functional equivalent of a general partner, and a non-managing member is the functional equivalent of a limited partner. Howard is currently evaluating and assessing ASU number 2017-02 to determine whether it applies to its operations due to the entities created as part of the real estate transactions.

In December 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. Howard is currently evaluating Topic 230 and planning for the implementation in fiscal year 2018.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. This Update provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs, (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing, (3) Contingent Consideration Payments Made after a Business Combination, (4) Proceeds from the Settlement of Insurance Claims, (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies, (6) Distributions Received from Equity Method Investees, (7) Beneficial Interests in Securitization Transactions, and (8) Separately Identifiable Cash Flows and Application of the Predominance Principle. Howard has assessed and evaluated ASU number 2016-15 and determined it is applicable to its operations. These new pronouncements will be adopted in fiscal year 2018.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2016-14 (Topic 958), *Not-for-Profit Entities.* The ASU provides guidance improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entity's (NFP's) such as liquidity, financial performance, and cash flows so useful information can be provided to donors, grantors, creditors, and other users of financial statements. This Update makes several improvements to current reporting requirements that address, among others, the following problems: (1) Complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent, (2) Deficiencies in the transparency and utility of information useful in assessing an entity's liquidity caused by potential misunderstandings and confusion about the term *unrestricted net assets* and how restrictions or limits imposed by donors, grantors, laws, contracts, and governing boards affect an entity's liquidity, classes of net assets, and financial performance, (3) Inconsistencies in the type of information provided about expenses of the period, and (4) Impediment of preparing the indirect method reconciliation if an NFP chooses to use the direct method of presenting operating cash flows. This new pronouncement will be adopted in fiscal year 2019.

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 is 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 amendments in this Update make targeted improvements to generally accepted accounting principles (GAAP) as follows: (1) Require equity investments to be measured at fair value with changes in fair value recognized in net income, (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, (4) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (5) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (6) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (7) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements, and (8) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. Howard is currently evaluating and assessing ASU number 2016-01 to determine whether it applies to its operations due to the entities that either hold investments or debt.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2015-04 (Topic 715), *Compensation—Retirement Benefits: Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets.* The ASU provides guidance on reducing the complexity in accounting standards by identifying, evaluating, and improving areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. A reporting entity with a fiscal year-end that does not coincide with a month-end may incur more costs than other entities when measuring the fair value of plan assets of a defined benefit pension or other postretirement benefit plan. Howard has assessed and evaluated ASU number 2015-04 and determined it is applicable to its operations. This new pronouncement will be adopted in fiscal year 2018.

(r) ***Reclassification***

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

Note 2 Receivables

Accounts receivable, prior to adjustment for doubtful collections, are summarized as follows at fiscal years ended June 30, 2017, 2016 and 2015:

Receivables	**2017**	**2016**	**2015**
Student	$ 38,372	$ 131,905	$ 31,643
Notes	14,867	15,607	15,521
Federal appropriation	3,405	4,302	3,405
Patients and third-party payors - Hospital	86,729	73,423	64,532
Patients and third-party payors - FPP	7,552	18,970	25,070
Patients and third-party payors - Dental	2,401	3,628	2,631
Grants and contracts	13,283	15,006	14,860
Contributions	6,052	3,643	6,861
Insurance claims	-	7,526	12,355
Auxiliary services	5,600	5,673	6,856
Other	3,943	8,724	6,182
Total	**$ 182,204**	**$ 288,407**	**$ 189,916**

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Allowance for doubtful receivables is summarized as follows at fiscal years ended June 30, 2017, 2016 and 2015:

Allowance for Doubtful Receivables	2017	2016	2015
Student	$ 20,531	$ 23,327	$ 16,979
Notes	7,315	5,821	2,789
Patients and third-party payors - Hospital	36,315	26,649	33,226
Patients and third-party payors - FPP	1,270	1,357	9,465
Patients and third-party payors - Dental	1,082	1,409	660
Grants and contracts	616	1,119	3,308
Contributions	2,867	2,055	2,527
Insurance claims	-	1,689	1,689
Auxiliary services	819	531	152
Other	-	115	114
Totals	**$ 70,815**	**$ 64,072**	**$ 70,909**
Total receivables, net	**$ 111,389**	**$ 224,335**	**$ 119,007**

Provision for bad debt is summarized as follows at fiscal years ended June 30, 2017, 2016 and 2015:

Provision for Bad Debt	2017	2016	2015
Non-clinical services:			
Student services	$ (1,614)	$ 8,583	$ 6,762
Notes	1,532	-	-
Grants and contracts	(500)	848	1,739
Insurance claims	-	-	(22)
Auxiliary services	-	389	100
Contributions	812	(471)	904
Other	(7)	-	-
Total non-clinical	**$ 223**	**$ 9,349**	**$ 9,483**
Clinical services:			
Patients and third-party payors - Hospital	38,245	19,504	22,872
Patients and third-party payors - FPP	12,905	(1,480)	13,919
Patients and third-party payors - Dental	84	796	148
Total clinical services	**$ 51,234**	**$ 18,820**	**$ 36,939**
Total provision for bad debt	**$ 51,457**	**$ 28,169**	**$ 46,422**

Bad debt expense of $223, $9,349 and $9,483 for fiscal years ended June 30, 2017, 2016 and 2015, respectively, reflected in total operating expenses on the statements of activities excludes bad debt expense related to certain clinical services determined to be uncollectible. Clinical services bad debt expense, as shown in the table above, has been netted against patient service revenues.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Contributions receivable at June 30, 2017, 2016 and 2015 are expected to be received as follows:

Contributions Receivable	2017	2016	2015
Within one year	$ 2,829	$ 2,731	$ 5,529
Between one and five years	3,355	1,554	1,026
Thereafter	552	402	604
Contributions receivable gross	6,736	4,687	7,159
Unamortized discount on contributions receivable (2%-6.5%)	(684)	(1,044)	(298)
Contributions receivable, net of discounts	6,052	3,643	6,861
Allowance for uncollectible contributions	(2,867)	(2,055)	(2,527)
Contributions receivable, net of discounts and allowance	$ 3,185	$ 1,588	$ 4,334

Note 3 Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts at fiscal years ended June 30, 2017, 2016 and 2015 are as follows:

Inventories, Prepaids and Other Assets	2017	2016	2015
Inventories - Hospital	$ 4,097	$ 3,568	$ 3,416
Prepaid expenses	6,755	5,450	6,709
Dialysis joint venture interest	5,054	5,588	5,638
Beneficial interest trust	5,601	5,088	5,038
Workers compensation	-	4,858	-
Self-insured assets	7,972	7,972	-
Intellectual property costs	1,337	1,530	1,530
Other	458	567	205
Total	**$ 31,274**	**$ 34,621**	**$ 22,536**

Note 4 Deposits with Trustees and Self-insured Liabilities

	Dedicated Assets		
	2017	2016	2015
Debt service reserve	$ 13,220	$ 12,848	$ 12,847
Professional liability	-	15	16
Workers’ compensation	9	10	10
Health insurance trust	2,230	1,778	1,384
Total	**$ 15,459**	**$ 14,651**	**$ 14,257**
	Liabilities		
	2017	**2016**	**2015**
Professional liability	$ 53,976	$ 59,127	$ 55,671
Workers’ compensation	15,861	21,234	28,891
Health insurance trust	4,377	6,850	9,987
Total	**$ 74,214**	**$ 87,211**	**$ 94,549**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

(b) ***Professional Liability***

Howard is involved in litigation arising in the ordinary course of business. Claims alleging malpractice 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, 2017. 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, 2017, 2016 and 2015 of approximately $53,976, $59,127 and $55,671, 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, 2017, 2016 and 2015 in the table below.

Professional Liability	**2017**	**2016**	**2015**
Beginning balance	$ 59,127	$ 55,671	$ 54,365
Malpractice claims expense	6,081	5,176	13,667
Settlement payments	(11,232)	(1,720)	(12,361)
Ending balance	**$ 53,976**	**$ 59,127**	**$ 55,671**

(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, 2017, workers' compensation liabilities are being satisfied as claims arise. Howard also maintains $7,972 in letters of credit, which serve as collateral for specific insurance carriers. Howard is self-insured for workers' compensation claims up to per occurrence retention of $500. The excess is covered through commercial insurance.

For fiscal years ended June 30, 2017, 2016 and 2015 expenses related to workers' compensation were $5,670, $(4,327) and $3,860, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately $15,861, $21,234 and $28,891 at June 30, 2017, 2016 and 2015, respectively, and includes liabilities for claims covered under existing insurance policies. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. This liability is recorded on the accompanying consolidated statements of financial position in reserves for self-insured liabilities. Estimated claims for which payments will be covered under existing insurance policies were $0, $5,837 and $10,666 at June 30, 2017, 2016, and 2015, respectively, net of allowances for uncollectible amounts and are reflected in other receivables.

(d) ***Health Insurance***

Prior to July 1, 2012, Howard established a revocable self-insured trust fund for the purpose of partially funding group health benefits for its employees. The assets consisted primarily of investments in money market funds. As of June 30, 2017, 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, 2017, 2016 and 2015, is approximately $4,377, $6,850 and $9,987, respectively.

Note 5 Fair Value Measurements

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Howard's financial assets and liabilities as of June 30, 2017, 2016 and 2015 are subject to fair value accounting.

Fair value as of June 30, 2017 is as follows:

Fair Value as of June 30, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Unexpended bond proceeds (6)	$ -	$ 3,038	$ -	$ 3,038
Deposits with trustees (7)	2,239	13,220	-	15,459
Other assets (8)	7,972	-	5,601	13,573
Total assets (non investment)	**$ 10,211**	**$ 16,258**	**$ 5,601**	**$ 32,070**
Operating investments				
Common Stock (3)	39,851	-	-	39,851
Total operating investments	**$ 39,851**	**$ -**	**$ -**	**$ 39,851**
Restricted investments				
Money Market Instrument (1)	-	1,112	-	1,112
Common Stock (3)	42,799	-	-	42,799
Private Equity (4)	-	-	3,052	3,052
Real Estate (4)	-	-	250	250
Total restricted investments	**$ 42,799**	**$ 1,112**	**$ 3,302**	**$ 47,213**
Endowment investments				
Money Market Fund (1)	418	62,064	-	62,482
Common/collective trusts				
Emerging Market Equity (3)	-	54,433	-	54,433
Global Fixed Income Security (2)	-	33,743	-	33,743
International Equity Security (3)	-	118,895	-	118,895
Commodity Inflation Hedging (8)	-	11,471	-	11,471
Common Stock (3)	60,552	-	-	60,552
Fixed income				
Corporate Bond (2)	-	25	-	25
Hedge funds				
Equity Long/short (4)	-	13,244	-	13,244
Event driven (4)	-	-	12	12
Global opportunities (4)	-	6,332	-	6,332
Multi-strategy (4)	-	23,800	62	23,862
Mutual funds investment				
Emerging Market Equity Security (3)	34,904	-	-	34,904
Domestic Common Stock (3)	31,801	-	-	31,801
Domestic Fixed Income (2)	78,021	-	-	78,021
International Equity Security (3)	10,452	-	-	10,452
Limited partnerships (4)	-	-	84,459	84,459
Real estate (4)	-	-	21,536	21,536
Total endowment investments	**$ 216,148**	**$ 324,007**	**$ 106,069**	**$ 646,224**
Total investments	**$ 298,798**	**$ 325,119**	**$ 109,371**	**$ 733,288**
Assets not subject to fair value reporting (9)	**1,239**	**-**	**-**	**1,239**
Liabilities not subject to fair value reporting (9)	**(907)**	**-**	**-**	**(907)**
Total assets and liabilities measured at fair value	**$ 309,341**	**$ 341,377**	**$ 114,972**	**$ 765,690**

Level 3 investments were 15% of total investments.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

Level 3 investments were 15% of total investments.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

Level 3 investments were 16% of total investments.

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

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

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

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

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

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

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

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

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

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

Changes in Level 3 securities for the period ended June 30, 2017 is as follows:

Changes in Level 3 for the period ended June 30, 2017	**Private Equity and Venture Capital**	**Hedge Funds**	**Real Estate**	**Other Assets**	**Total**
Balance July 1, 2016	$ 78,680	$ 86	$ 17,113	$ 5,588	$ 101,467
Gain and Loss (Realized and unrealized)	12,040	(12)	2,085	13	14,126
Acquisitions	23,008	-	9,885	-	32,893
Sales	(26,217)	-	(7,297)	-	(33,514)
Balance June 30, 2017	**$ 87,511**	**$ 74**	**$ 21,786**	**$ 5,601**	**$ 114,972**
Change in unrealized investments held	**$ 2,628**	**$ 37**	**$ 893**	**$ 13**	**$ 3,571**

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2017. 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, 2016 is as follows:

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

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

Net investment income (loss) is summarized as follows for fiscal years June 30, 2017, 2016 and 2015:

Net Investment Income (Loss)	2017	2016	2015
Interest and dividends	$ 13,559	$ 7,997	$ 12,397
Net realized gains	37,535	15,955	29,417
Net unrealized gains (losses)	38,591	(36,720)	(32,910)
Other investment income, net of expense	99	71	201
Investment expenses	(3,809)	(3,490)	(3,006)
Net investment income (loss)	**$ 85,975**	**$ (16,189)**	**$ 6,099**
Current year unrestricted operating return (loss)	**5,270**	**(1,015)**	**966**
Current year non-operating investment return (loss):			
Unrestricted	41,152	(6,984)	1,826
Restricted	39,553	(8,190)	3,307
Total current year investment return	**$ 85,975**	**$ (16,189)**	**$ 6,099**
Prior year return designated for current operations:			
Unrestricted	(6,954)	(6,581)	(6,346)
Restricted	(8,174)	(7,693)	(7,372)
Total designated for current operation	**$ (15,128)**	**$ (14,274)**	**$ (13,718)**
Net non-operating investment return:			
Unrestricted	34,198	(13,565)	(4,520)
Restricted	31,379	(15,883)	(4,064)

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Liquidity Terms and Unfunded Commitments – The following tables represent Howard's investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2017, 2016 and 2015. 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, 2017	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds	$ 43,450	$ -	Monthly-Annually	45-90 days
Real estate funds	21,786	11,473	-	2-10 years
Common/collective trusts	218,665	-	Monthly	-
Limited partnerships	87,511	59,381	-	≤ 10 years

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

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

Note 6 Endowment Fund

Howard's endowment includes approximately 800 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 that is not classified as permanently restricted is classified as temporarily restricted until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

As of fiscal years ended June 30, 2017, 2016 and 2015 total endowment funds classified as permanently restricted and temporarily restricted net assets were:

Restricted Endowment	2017	2016	2015
Permanently Restricted Net Assets			
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA:	**$ 90,663**	**$ 88,658**	**$ 81,904**
Temporarily Restricted Net Assets			
Time restricted funds	146,907	134,335	140,868
The portion of perpetual endowment funds subject to a time restriction under DC UPMIFA:			
Without purpose restrictions	4,048	3,578	4,204
With purpose restrictions	56,662	49,523	58,106
Total endowment funds classified as temporarily restricted net assets	**$ 207,617**	**$ 187,436**	**$ 203,178**

The change in value and the composition of amounts classified as endowment as of June 30, 2017 is as follows:

Endowment Change in Value For period ended June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 305,340**	**$ 187,436**	**$ 88,658**	**$ 581,434**
Investment return:				
Investment income	5,785	6,594	178	12,557
Net appreciation (realized and unrealized)	31,198	30,790	279	62,267
Total investment return	**$ 36,983**	**$ 37,384**	**$ 457**	**$ 74,824**
Contributions	162	3,424	1,710	5,296
Appropriation of endowment assets for operations	(6,257)	(8,709)	(162)	(15,128)
Other changes:				
Match release	11,985	(11,985)	-	-
Transfer and other changes	3,468	67	-	3,535
Endowment net assets, end of year	**$ 351,681**	**$ 207,617**	**$ 90,663**	**$ 649,961**
Donor-restricted endowment funds	(4,740)	207,617	90,663	293,540
Board-designated endowment funds	356,421	-	-	356,421
Endowment net assets, end of year	**$ 351,681**	**$ 207,617**	**$ 90,663**	**$ 649,961**

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

Howard’s endowment net assets include receivables related to the federal term endowment, which have not been received and therefore not included as part of endowment investments. For fiscal years ended June 30, 2017, 2016 and 2015 receivables of $3,405, $4,302 and $3,405, respectively were recorded, and represent the difference between endowment investments reflected on consolidated statements of financial position and endowment net assets reported above.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Trustees require Howard to retain as a fund of perpetual duration. Deficiencies of this nature, so called “underwater accounts”, are reported in unrestricted net assets and totaled $4,740, $7,137 and $4,181 as of fiscal years ended June 30, 2017, 2016 and 2015, respectively. Howard has adopted a policy allowing spending in certain situations from underwater, donor-restricted endowment funds, absent overriding provisions in donor agreements. Howard’s investment and spending policy is intended to conform with the UPMIFA which allows spending in underwater endowments, in support of an endowment’s purpose.

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

Note 7 Long-Lived Assets

Long-Lived Assets	**2017**	**2016**	**2015**
Land and land improvements	$ 27,996	$ 27,911	$ 27,911
Buildings and building improvements	876,234	871,570	847,079
Property held for expansion	54,819	54,819	54,819
Property held under leases	28,236	28,236	28,236
Furniture and equipment	332,674	321,277	292,669
Library books	91,736	91,376	91,075
Software	118,532	114,827	114,353
Software in progress	111	6,169	6,169
Construction in progress	10,390	15,186	77,798
Long-lived assets, gross	1,540,728	1,531,371	1,540,109
Accumulated depreciation and amortization	(1,022,773)	(976,681)	(946,773)
Long-lived assets, net	**$ 517,955**	**$ 554,690**	**$ 593,336**

For the fiscal year ended June 30, 2017 there were $12,248 in additions and $1,210 in sales, disposals and retirements.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Depreciation and amortization expense for the years ended June 30, 2017, 2016 and 2015 were $50,154, $44,883 and $51,596, respectively. For fiscal years ended June 30, 2017, 2016, and 2015, respectively, net interest costs of $0, $158 and $198 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.

Note 8 Accounts Payable and Accrued Expenses

Components of this liability account at fiscal years ended June 30, 2017, 2016 and 2015 are as follows:

Accounts Payable and Accrued Expenses	**2017**	**2016**	**2015**
Vendor invoices	$ 59,688	$ 54,205	$ 96,177
Accrued salaries and wages	23,652	24,083	22,823
Accrued employee benefits	6,011	7,224	6,984
Accrued annual leave	4,444	5,283	5,848
Accrued faculty retirement incentive payments	1,008	2,088	3,610
Accrued interest	4,649	4,680	5,071
Other	90	419	1,337
Total	**$ 99,542**	**$ 97,982**	**$ 141,850**

Note 9 Other Liabilities and Deferred Revenue

These obligations include the following at fiscal years ended June 30, 2017, 2016 and 2015:

Other liabilities	**2017**	**2016**	**2015**
Asset retirement obligation	$ -	$ -	$ 13,514
Environmental remediation	-	-	3,000
Environmental liabilities	5,093	8,887	-
Residence halls	1,806	5,977	-
Unclaimed property	3,681	3,499	2,644
Student deposits and refunds	3,329	2,578	3,300
Reserve for legal contingencies	1,600	1,735	3,074
Deposits held in custody for others	703	1,376	1,702
Other	1,225	1,237	3,791
Total	**$ 17,437**	**$ 25,289**	**$ 31,025**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Deferred revenue	2017		2016		2015	
Deferred tuition, room and board	$	3,145	$	94,100	$	2,932
Deferred grant revenue		11,190		11,810		8,430
Deferred savings incentive revenue		1,175		1,775		2,375
Other		349		881		344
Total	**$**	**15,859**	**$**	**108,566**	**$**	**14,081**

Howard recorded an asset retirement obligation in fiscal year 2006 and subsequently updated the estimate in fiscal year 2009. In fiscal year 2016 a study was performed to review the documentation and methodology used to establish the obligation. Based on the study and the guidance in ASC 410 – *Asset Retirement and Environmental Obligations*, the liability does not qualify as an asset retirement obligation and is considered a general liability. Accordingly, in fiscal year 2016, the liability was reduced by $7,900 and the net expense impact of $5,200 is recorded as a reduction to institutional support.

In prior years, Howard's asset retirement obligation was discounted using a rate of 4.9%. Amounts for the fiscal years ended June 30, 2017, 2016 and 2015, were as follows:

Environmental liabilities	2017		2016		2015	
Asset retirement costs	$	-	$	969	$	4,565
Accumulated depreciation		-		841		2,253
Asset retirement obligation		-		-		13,514
Environmental liabilities		5,093		8,887		-
Total	**$**	**5,093**	**$**	**10,697**	**$**	**20,332**

Howard incurred costs related to remediation during fiscal years ended June 30, 2017, 2016 and 2015 of $1,177, $113 and $234, respectively.

Note 10 Leases

Lease Obligations

In the prior year, 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 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.

Finance Leases
Howard is obligated under finance leases for office and medical equipment that extend through 2020, and the chiller plant that extends through 2031, in the amounts of $29,115, $25,045 and $33,488, respectively at fiscal years ended June 30, 2017, 2016 and 2015. 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, Howard has included renewal periods in its assessment of lease terms. The right-of-use assets are amortized over their estimated useful lives. The finance lease right-of-use assets and accumulated amortization for the fiscal years ended June 30 are as follows:

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Right of Use Assets - Finance Lease	**2017**	**2016**	**2015**
Right of use assets - financing	$ 85,152	$ 68,871	$ 76,589
Accumulated amortization	(59,222)	(51,066)	(55,068)
Right of use assets, net	25,930	17,805	21,521

The discount rates used in measuring the finance right-of-use assets and liabilities are the rates as explicitly stated in each lease.

At June 30, 2017, the future minimum lease payments under finance leases (with initial or remaining lease terms in excess of one year) are as follows:

Lease Obligations	**Finance Leases**
Future principal and interest years ending June 30	
2018	$ 7,271
2019	5,111
2020	3,085
2021	3,064
2022	2,486
2023 and thereafter	23,340
Obligation, gross	44,357
Amounts representing interest rates from 2% to 10%	(15,242)
Total Lease Obligations, net	**$ 29,115**

At June 30, 2017, 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	**Financing Leases**
Future interest payments years ending June 30	
2018	$ 1,959
2019	1,676
2020	1,531
2021	1,429
2022	1,327
2023 and thereafter	7,320
Total lease obligations interest	**$ 15,242**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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, 2017, 2016 and 2015 was $9,626, $8,446 and $6,012, 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:

Right of Use Assets - Operating	**2017**	**2016**	**2015**
Right of use assets - operating	$ 4,599	$ 3,958	$ 4,886
Right of use assets, net	4,599	3,958	4,886

At June 30, 2017, 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 Obligation	**Operating Leases**
Future lease payments years ending June 30	
2018	$ 424
2019	438
2020	438
2021	453
2022	467
2023 and thereafter	1,879
Total Operating Lease Obligations	**$ 4,099**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

Lease expense	2017	2016	2015
Finance lease expense:			
Amortization of right of use assets	$ 7,526	$ 5,348	$ 6,507
Interest on lease liabilities	2,345	2,746	3,128
Operating lease expense	456	438	422
Total	**$ 10,327**	**$ 8,531**	**$ 10,057**

Other information	2017	2016	2015
Cash paid for amounts included in the measurements of lease liabilities for finance leases:			
Operating cash flows	$ 2,345	$ 2,907	$ 3,128
Financing cash flows	6,945	9,170	10,637
Cash paid for amounts included in the measurement of lease liabilities for operating leases:			
Operating cash flows	409	388	400
Right of use (ROU) assets obtained in exchange for lease liabilities:			
Finance leases	6,784	1,655	-
Operating leases	2,818	-	-
Weighted-average remaining lease term (in years):			
Finance leases	10.22	9.97	9.62
Operating leaes	11.48	6.81	7.26
Weighted-average discount rate:			
Finance leases	7.57%	7.31%	7.07%
Operating leases	6.50%	6.50%	6.50%

Lease Income

Sales-Type Lease

In the prior year, Howard entered into a lease contract related to the Meridian Hill transaction and determined the lease was a sales-type lease under ASC 842. The ground lease was assessed as a sales-type lease due to the length of the term (99 years) and the fair value of the land and building relative to the consideration received. There are no residual value guarantees, renewal options, or variable lease payments. As a result of the ground lease, Howard recognized a $17,486 gain in its statements of activities for the year ended June 30, 2016, and removed the assets from its books.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Lessor Operating Leases

Howard has assessed all contracts that convey control of its assets to third parties as lessor leases. Lessors recognize an unbilled lease receivable for their operating leases. Such treatment results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's statement of financial position and is continuously depreciated.

Howard has several operating leases for retail and commercial space for which rent payments are fixed at the time of lease commencement. Howard considered 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 for another couple of years or go on a month-to-month lease. Termination terms are explicitly stated in each lease agreement as both the Lessor and Lessee can exercise rights to terminate the 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) land dedicated to use as parking lots, (3) space available on the top of certain buildings, and (4) ground leases (Provident and Meridian Hill). Other standalone buildings owned by Howard are leased to private companies such as (5) a public charter school, (6) a car rental company, and (7) 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 2023 and thereafter. The total lease income received for fiscal years ended June 30, 2017, 2016 and 2015 was $2,059, $1,745 and $1,508, respectively and are reported in auxiliary service revenue on the statements of activities.

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

Future minimum lease income	**June 30**
2018	$ 1,763
2019	1,788
2020	1,793
2021	1,757
2022	2,277
2023 and thereafter	5,922
Total minimum lease income receipts	**$ 15,300**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Note 11 Bonds and Notes Payable

(a) *Bonds Payable*

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

Bonds Payable	2017	2016	2015
District of Columbia issues:			
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 6,847	$ 7,477	$ 8,048
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	192,145	225,250	225,250
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035	61,750	63,665	65,065
2016 Revenue bonds Serial due 2015 through 2031	160,000	160,000	-
Total bonds payable, gross	**$ 420,742**	**$ 456,392**	**$ 298,363**
Unamortized bond premium (discount)	(5,093)	(5,316)	(5,510)
Unamortized bond issuance costs	(4,683)	(4,937)	(4,563)
Total bonds payable, net	**$ 410,966**	**$ 446,139**	**$ 288,290**

(1) 2010 Revenue Bonds

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

(2) 2011 Revenue Bonds

In April 2011, Howard issued $225,250 of tax exempt revenue bonds (Series 2011A) and $65,065 of taxable revenue bonds (Series 2011B) to refund the Series 1998 and Series 2006 bonds and to finance new capital improvements. The interest rate on the tax exempt bonds range from 5.25% to 6.50% and the bonds are repayable from 2020 to 2041. The taxable bonds bear interest between 4.31% and 7.63% and are repayable from 2015 to 2035. The average coupon is 6.57%. The 2011 bonds require Howard to maintain a debt service fund of $12,634. At the fiscal year ended June 30, 2017 the fund balance was $13,220.

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.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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 an extraordinary and unusual event and is reported as a part of income from continuing operations on the statement of activities after total operating expenses. See Note 22 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, 2017.

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

(3) **2016 Revenue Bonds**

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

(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, 2017, 2016 and 2015, the estimated fair value was approximately $437,210, $480,939 and $316,072, 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***

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

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

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

In June 2014, Howard replaced its $135,000 Multi-bank Credit Agreement with a $100,000 Multi-bank Credit Agreement that extended through July 2016. The outstanding balance of $95,000 was paid with proceeds from the 2016 Revenue Bonds in June 2016. Outstanding borrowings under these agreements at fiscal years ended June 30, 2017, 2016 and 2015 were $0, $0 and $95,000, respectively.

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

In 2015, Howard, as was required by the terms of the Multi-bank Credit Agreement, granted lenders a security interest in collateral in the form of cash and securities delivered to their collateral agent. Howard would pledge additional collateral when the collateral value was less than the minimum collateral amount. The collateral agent was not allowed to re-pledge or sell the collateral securities. At June 30, 2015, the carrying value of the pledged securities was $133,903 and was reported in endowment investments. There were no pledged securities at fiscal years ended June 30, 2017 or 2016.

At June 30, 2017, 2016, and 2015, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 Revenue Bonds and the Property Loan. At June 30, 2017, 2016, and 2015, Howard was compliant with the Liquidity Ratio measurement for the Multi-bank Credit Agreement. The Debt Service Coverage Ratio measurement requirement was removed for fiscal year 2015 for the Multi-bank Credit Agreement.

The 2011 Bond, 2016 Revenue Bonds and Revolving Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2017.

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

(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	**2017**	**2016**	**2015**
2016	NA	NA	98,813
2017	NA	2,546	4,700
2018	12,101	10,966	2,771
2019	12,079	12,079	3,480
2020	14,148	14,148	5,135
2021	14,957	14,957	3,892
2022	15,786	15,786	5,847
2023 and thereafter	351,671	385,910	272,696
Subtotal	420,742	456,392	397,334
Bond premiums/(discounts)	(5,093)	(5,316)	(5,510)
Bond issuance costs	(4,683)	(4,937)	(4,563)
Total	**$ 410,966**	**$ 446,139**	**$ 387,261**

Note 12 Retirement Plans

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

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

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.

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

Supplemental Retirement Plan – Howard also has a supplemental retirement plan available to certain retired executives. The plan is noncontributory, unfunded and has a June 30 measurement date. The projected benefit obligation is $1,533, $1,711 and $1,704 at fiscal years ended June 30, 2017, 2016 and 2015, respectively. The amounts not yet reflected in operating expenses, but included in unrestricted net assets pertain to accumulated losses of $999, $1,106 and $1,024 at June 30, 2017, 2016 and 2015, 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, 2017 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 $22,052, $20,494 and $22,502 for fiscal years ended June 30, 2017, 2016 and 2015, respectively. The fair value of plan assets for the savings plan for fiscal years ended June 30, 2017, 2016 and 2015 were $970,291, $914,319 and $929,126, respectively. These investments are held by Howard on behalf of its employees and excluded from the consolidated statements of financial position.

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Howard recognizes a plan's overfunded or underfunded status as an asset or liability, with an offsetting adjustment to unrestricted net assets. The reconciliation of the Plan's funded status to amounts recognized in the consolidated financial statements at fiscal years ended June 30, 2017, 2016 and 2015 are as follows:

	Pension			Medical and Life Insurance			Supplemental		
Retirement Benefits	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Change in benefit obligation									
Projected benefit obligation at beginning of year	$ 701,879	$ 669,090	$ 659,234	$ 67,608	$ 63,438	$ 71,302	$ 1,711	$ 1,704	$ 1,710
Service Cost	-	-	-	588	479	507	-	-	-
Interest Cost	26,375	28,291	27,147	2,588	2,728	2,927	62	69	67
Actuarial (gain)/loss	(11,013)	40,972	17,285	(3,445)	5,279	(7,051)	4	182	171
Benefits paid	(37,680)	(36,474)	(34,576)	(4,676)	(10,833)	(11,970)	(244)	(244)	(244)
Medicare Part D subsidy	-	-	-	72	18	820	-	-	-
Employee contributions	-	-	-	895	7,281	6,903	-	-	-
Plan curtailments				-	(782)	-	-	-	-
Plan amendments	-	-	-	(8,635)	-	-	-	-	-
Projected benefit obligation at end of period	**$ 679,561**	**$ 701,879**	**$ 669,090**	**$ 54,995**	**$ 67,608**	**$ 63,438**	**$ 1,533**	**$ 1,711**	**$ 1,704**
Change in plan assets:									
Fair value of plan assets at beginning of year	535,201	538,962	552,605	-	-	-	-	-	-
Actual return on plan assets	42,994	24,393	4,632	-	-	-	-	-	-
Employer contributions	-	8,320	16,301	3,709	3,534	4,247	-	-	-
Employee contributions	-	-	-	895	7,281	6,903	244	244	244
Medicare Part D subsidy	-	-	-	72	18	820	-	-	-
Benefits paid	(37,680)	(36,474)	(34,576)	(4,676)	(10,833)	(11,970)	(244)	(244)	(244)
Fair value of plan assets at end of period	**$ 540,515**	**$ 535,201**	**$ 538,962**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Total	**$ (139,046)**	**$ (166,678)**	**$ (130,128)**	**$ (54,995)**	**$ (67,608)**	**$ (63,438)**	**$ 1,533**	**$ 1,711**	**$ 1,704**

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at fiscal years ended June 30, 2017, 2016 and 2015:

	Pension			Medical and Life Insurance			Supplemental		
Retirement Benefits	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Recognized in Statement of Activities									
Amortization of transition obligation	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization of prior service cost	100	100	100	-	-	-	-	-	-
Amortization of net actuarial loss	9,467	8,102	8,459	581	626	802	112	99	91
Total amortization	**$ 9,567**	**$ 8,202**	**$ 8,559**	**$ 581**	**$ 626**	**$ 802**	**$ 112**	**$ 99**	**$ 91**
Service Cost	-	-	-	588	479	507	-	-	-
Interest Cost	26,375	28,291	27,147	2,588	2,728	2,927	62	69	67
Curtailment recognition of prior service credit	-	-	-	(11,825)	(15,342)	(12,785)	-	-	-
Expected return on plan assets	(30,821)	(32,337)	(27,834)	-	-	-	-	-	-
Recognized in operating expenses	**$ 5,121**	**$ 4,156**	**$ 7,872**	**$ (8,068)**	**$ (11,509)**	**$ (8,549)**	**$ 174**	**$ 168**	**$ 158**
Amortization of transition obligation	-	-	-	-	-	-	-	-	-
Amortization of prior service cost	(100)	(100)	(100)	-	-	-	-	-	-
Amortization of net actuarial loss	(9,467)	(8,102)	(8,459)	(581)	(626)	(802)	(112)	(99)	(91)
Total amortization	**$ (9,567)**	**$ (8,202)**	**$ (8,559)**	**$ (581)**	**$ (626)**	**$ (802)**	**$ (112)**	**$ (99)**	**$ (91)**
Net actuarial (gain) loss during the year	(23,187)	48,915	40,532	(2,509)	4,528	(6,453)	4	182	171
Curtailment recognition of prior service credit	-	-	-	11,825	15,342	12,785	-	-	-
New prior service cost arising during period	-	-	-	(8,635)	-	-	-	-	-
Total recognized in other changes in unrestricted net assets	**$ (32,754)**	**$ 40,713**	**$ 31,973**	**$ 100**	**$ 19,244**	**$ 5,530**	**$ (108)**	**$ 83**	**$ 80**
Total recognized in Statements of Activities	**$ (27,633)**	**$ 44,869**	**$ 39,845**	**$ (7,968)**	**$ 7,735**	**$ (3,019)**	**$ 66**	**$ 251**	**$ 238**

Amounts included in unrestricted net assets at fiscal years ended June 30, 2017, 2016 and 2015:

	Pension			Medical and Life Insurance		
Retirement Benefits	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Net actuarial loss	$ (268,089)	$ (300,743)	$ (259,931)	$ (7,232)	$ (10,322)	$ (6,420)
Prior service cost	(2,400)	(2,500)	(2,600)	26,610	29,800	45,142
Total	**$ (270,489)**	**$ (303,243)**	**$ (262,531)**	**$ 19,378**	**$ 19,478**	**$ 38,722**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

The estimated net actuarial loss, prior service cost, and transition obligation for the pension and post-retirement plans that were accounted for as a part of net periodic benefit cost over the next fiscal year are $9,268, $100 and $0, respectively.

Contributions to the pension plan of $0, $8,320 and $16,301, were made in fiscal years ended June 30, 2017, 2016, and 2015, respectively. Contributions of $11,244 are expected to be paid to the pension plan during the fiscal year ended June 30, 2018.

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2017, 2016 and 2015 were as follows:

	Pension Benefits			Post-retirement Benefits		
Actuarial Assumptions	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	4.05%	3.88%	4.36%	4.05%	3.96%	4.45%
Expected return on plan assets	7.00%	7.00%	7.00%	0.00%	0.00%	0.00%
Rate of compensation increase	-	-	-	3.50%	3.50%	3.50%

The weighted average assumptions used to determine net periodic cost in the actuarial valuations for fiscal years ended June 30, 2017, 2016 and 2015 were as follows:

	Pension Benefits			Post-retirement Benefits		
Actuarial Assumptions	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Discount rate	3.88%	4.36%	4.25%	3.96%	4.45%	4.29%
Expected return on plan assets	7.00%	7.00%	7.00%	0.00%	0.00%	0.00%
Rate of compensation increase						
To age 35	-	-	-	3.50%	3.50%	3.50%
Thereafter	-	-	-	3.50%	3.50%	3.50%

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Pension plan investments as of June 30, 2017 were as follows:

Pension Plan Investments as of June 30, 2017	Level 1	Level 2	Level 3	Total
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 6,121	$ -	$ 6,121
Common/Collective Trusts				
Emerging Market Equity (3)	-	13,184	-	13,184
International Equity-Developed (3)	-	97,236	-	97,236
Commodity Inflation Hedging (8)	-	10,590	-	10,590
Common Stock (3)	51,869	-	-	51,869
Fixed Income				
Mortgage Backed Securities (2)	-	4,488	-	4,488
Corporate Bond (2)	-	45,832	-	45,832
Government Bond (2)	87,410	-	-	87,410
Hedge Fund				
Equity Long/short (4)	-	5,773	-	5,773
Global opportunities (4)	-	7,786	-	7,786
Multi-strategy (4)	-	-	45	45
Mutual Fund				
Emerging Market Equity Security (3)	19,197	-	-	19,197
Domestic Common Stock (3)	35,611	-	-	35,611
Domestic Fixed Income (2)	103,504	-	-	103,504
Private Equity and Venture Capital (4)	-	-	67,921	67,921
Real Estate (4)	-	-	15,867	15,867
Total assets	**$ 297,591**	**$ 191,010**	**$ 83,833**	**$ 572,434**
Liabilities:				
Financial Derivatives – Option Contracts	$ -	$ 681	$ -	$ 681
Total liabilities	**$ -**	**$ 681**	**$ -**	**$ 681**
Total pension plan investments	**$ 297,591**	**$ 191,691**	**$ 83,833**	**$ 573,115**
Operating asset not subjected to fair value reporting (9)	8,901	-	-	8,901
Operating liabilities not subjected to fair value reporting (9)	(41,501)	-	-	(41,501)
Total plan assets	**$ 264,991**	**$ 191,691**	**$ 83,833**	**$ 540,515**

Level 3 investments were 16% of total plan investments.

Refer to Note 5 – Fair Value Measurements for explanation of financial instrument classifications.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

Level 3 investments were 15% of total plan investments.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

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

Level 3 investments were 18% of total plan investments.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (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, 2017.

Changes in Level 3 for the period ended June 30, 2017	Private Equity and Venture Capital	Hedge Funds	Real Estate	Total
Balance July 1, 2016	$ 71,620	$ 57	$ 10,790	$ 82,467
Gain and loss (realized and unrealized)	10,653	(12)	1,451	12,092
Purchases	5,331	-	8,031	13,362
Transfer out and sales	(19,683)	-	(4,405)	(24,088)
Balance at June 30, 2017	**$ 67,921**	**$ 45**	**$ 15,867**	**$ 83,833**
Change in unrealized investments held	**$ 55**	**$ (24)**	**$ 435**	**$ 466**

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

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

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Pension Plan Liquidity Terms and Unfunded Commitments – The following tables represent Howard's investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2017, 2016 and 2015. 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, 2017	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds	$ 13,621	$ -	Monthly-Annually	45-90 days
Real estate funds	15,867	7,766	-	2-10 years
Common/collective trusts	121,028		Monthly	-
Limited partnerships	67,921	23,656	-	≤ 10 years

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

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

Pension Plan Asset Allocation	2017	2016	2015	Allowable Range
Mid-Large Cap U.S. Equity	10.2%	8.8%	9.7%	10-20%
Small Cap U.S. Equity	2.6%	3.0%	3.3%	0-10%
International Equity - Developed	18.2%	14.7%	16.0%	10-20%
Private Equity/Venture Capital	11.7%	15.4%	16.3%	5-15%
Hedge Funds	2.5%	2.4%	3.5%	5-10%
Inflation Hedging	8.9%	5.4%	5.9%	10-15%
Emerging Markets Equity	6.1%	4.9%	4.3%	0-10%
U.S. Long Bonds	39.3%	44.7%	39.3%	25-35%
Cash and Cash Equivalents	0.5%	0.7%	1.7%	0-5%
Total	**100%**	**100%**	**100%**	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2017 is 6.69%. 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.

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

		Post-retirement Benefits		
Expected Future Benefit Payments	**Pension Benefits**	**Excluding Subsidy**	**Subsidy Payments**	**Net of Subsidy**
Year ending June 30:				
2018	$ 45,071	$ 4,463	$ 138	$ 4,601
2019	45,526	4,366	135	4,501
2020	45,783	4,285	131	4,416
2021	45,572	4,166	125	4,291
2022	45,365	4,060	119	4,179
Years 2023-2027	217,295	18,416	495	18,911
Total	**$ 444,612**	**$ 39,756**	**$ 1,143**	**$ 40,899**

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

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

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

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Note 13 Net Assets

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

Temporarily Restricted Net Assets	2017	2016	2015
Scholarships	$ 54,494	$ 48,910	$ 52,050
Professorships	36,232	33,136	34,405
Student loans	1,987	1,721	1,405
Federal term endowment	132,739	119,145	124,883
General operations and other	40,483	33,441	38,176
Total	**$ 265,935**	**$ 236,353**	**$ 250,919**

The Federal term endowment restriction is for 20 years for each contribution beginning in 1985. Howard transfers the amount of the original contribution plus accumulated investment returns to unrestricted net assets at the end of each 20 year period. For fiscal years ended June 30, 2017, 2016 and 2015, the transfer amounts were $11,985, $7,701 and $10,146, respectively.

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

Permanently Restricted Net Assets	2017	2016	2015
Scholarships	$ 58,465	$ 57,296	$ 55,122
Professorships	25,783	24,713	24,431
Student loans	35,287	34,548	36,943
General operations and other	12,915	11,691	11,610
Total	**$ 132,450**	**$ 128,249**	**$ 128,106**

Temporarily restricted net assets that were released from donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors as noted for fiscal years ended June 30, 2017, 2016 and 2015 are as follows:

Net Assets Released from Restrictions	2017	2016	2015
Federal term	$ 11,985	$ 7,701	$ 10,146
Restrictions released based on purpose:			
Scholarships and fellowships	3,596	3,242	5,032
Professorships	1,522	711	463
Student loans	128	57	128
General operations and other	2,234	2,584	1,943
Total	**$ 19,465**	**$ 14,296**	**$ 17,712**

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Note 14 Estimated Third-Party Settlements

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

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

Medicare 2015-2017
Medicaid 2015-2017

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase in net patient service revenues of approximately $9,368, $7,961 and $8,764 for fiscal years ended June 30, 2017, 2016 and 2015, respectively.

Third-party settlement revenue	**2017**	**2016**	**2015**
Medicare pass-through	$ 11,091	$ 9,990	$ 8,644
Disproportionate Share Hospital	36,171	25,990	43,262
Graduate Medical Education	6,793	6,429	6,973
Other	9,647	4,228	(163)
Total third-party settlement revenue	**$ 63,702**	**$ 46,637**	**$ 58,716**

Note 15 Operating 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.

Expenses were incurred for the following categories for the years ended June 30, 2017, 2016 and 2015:

Operating expenses (in thousands)	2017	2016	2015
Salaries and wages	$ 333,842	$ 347,750	$ 365,126
Employee benefits other than retirement plans	72,857	61,419	78,451
Retirement plans excluding amortization	8,301	2,246	12,327
Total employment expenses	**415,000**	**411,415**	**455,904**
Telecommunications	9,305	8,114	9,987
Utilities	24,446	22,704	18,573
Medical and office supplies	29,574	30,293	38,737
Repairs and maintenance	25,033	23,651	28,267
Food service costs	16,179	15,875	14,694
Grant subcontracts	13,053	17,682	20,194
Insurance and risk management	27,389	22,032	28,179
Professional and administrative services	152,568	131,398	132,443
Provision for bad debts	223	9,349	9,483
Total operating expenses exclusive of interest, depreciation and amortization expense	**712,770**	**692,513**	**756,461**
Interest expense	21,618	25,133	24,730
Depreciation and amortization	50,154	44,883	51,596
Amortization of retirement plan actuarial losses	10,260	8,927	9,361
Total operating expenses	**$ 794,802**	**$ 771,456**	**$ 842,148**

Note 16 Fundraising Expenses

For fiscal years ended June 30, 2017, 2016 and 2015, Howard incurred expenses of approximately $6,386, $4,691 and $5,684, respectively, in connection with its fundraising activities. These amounts are reflected on the accompanying consolidated statements of activities within each respective expense category, as appropriate.

Note 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 of costs foregone for services furnished under the Hospital's charity care policy and the DC Alliance program were $4,200, $5,356 and $5,194 for fiscal years ended June 30, 2017, 2016 and 2015, respectively.

Total uncompensated care costs under all of Howard's clinical services which includes bad debt write offs as well as charity care, for fiscal years ended June 30, 2017, 2016 and 2015 were $55,434, $24,176 and $42,133, respectively.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

Note 18 Insurance and Risk Management

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

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

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	2017	2016	2015
Malpractice claims expense	$ 6,081	$ 5,176	$ 13,667
Malpractice excess insurance	1,710	1,470	1,414
Student sickness	9,727	11,622	9,430
General and other	9,871	3,764	3,668
Totals	**$ 27,389**	**$ 22,032**	**$ 28,179**

Note 19 Restructuring Costs

Restructuring costs represent non-recurring expenses required to facilitate management, faculty and staff changes resulting from Howard's various renewal initiatives. In fiscal years 2017, 2016, and 2015, Howard implemented a reduction-in-force to better align the number of administrative staff with expected needs and its financial capacity. Severance and other payments related thereto amounted to $118, $44 and $10,502, respectively. Additionally, Howard implemented a Faculty Phased Retirement Program with incentive payments of $19,816 payable between September 2012 and September 2017, which was accrued as of June 30, 2012. As of June 30, 2017, $1,008 remains accrued, reflecting $18,808 of cumulative payment activity.

Note 20 Concentration of Risks

Financial instruments that potentially subject Howard to significant concentrations of credit risk consist principally of deposits of cash, cash equivalents, and investments in financial institutions in excess of the applicable government insurance limits. The limit was $250 per account as of June 30, 2017. Aggregate cash and cash equivalent balances maintained at financial institutions exceed the amount guaranteed by federal agencies, but Howard has not experienced any loss due to this risk. Concentrations of credit risk with respect to receivables pertain mainly to self-pay patients of Howard's clinical services, and to students. Financial instruments that potentially subject Howard to market risk consist primarily of investments. Howard attempts to mitigate this risk through its investment strategy.

Note 21 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, 2017, 2016 and 2015 Howard reserved $1,600, $1,735 and $3,074, 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.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

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

Howard has several collective bargaining agreements currently in effect with unions representing approximately 1,125 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

Note 22 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, 2017, 2016 and 2015, Howard has contributed to the Middle School as follows:

Related Party Transactions	2017	2016	2015
Cash operating support	$ 1,000	$ 1,000	$ 1,000
Facility leased (market value)	1,451	1,577	1,577
Total	**$ 2,451**	**$ 2,577**	**$ 2,577**

(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.

For Fiscal Years Ended June 30, 2017, 2016 and 2015 (amounts in thousands)

As of fiscal years ending June 30, 2017, 2016 and 2015, the consolidated statements of financial position for the LLC are as follows:

Howard Dialysis Center, LLC Statements of Financial Position	2017	2016	2015
Total Assets	$ 11,389	$ 12,200	$ 12,096
Total Liabilities	1,075	795	590
Equity			
Partner	5,586	6,911	7,837
Retained earning	4,729	4,493	3,669
Total Equity	$ 10,315	$ 11,404	$ 11,506
ARA interest	$ 5,261	$ 5,816	$ 5,868
Howard interest	$ 5,054	$ 5,588	$ 5,638

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

The University entered into a 40-year ground lease with Provident Group – Howard Properties, LLC and Provident Resources Group, Inc. ("Owner") in which the Owner will design, construct and furnish the College Hall North and South dormitory facilities ("dorms") for the benefit of the University. The Owner issued $113,900 in revenue bonds through the District of Columbia to finance the construction of the dorms. The University and Owner entered into a management agreement such that the University will be responsible for managing, operating and maintaining the dorms in conjunction with general business. In general, revenues and expenses associated with the dorm are the responsibility of the Owner. The bonds will be repaid solely from revenues from the dorms. A management fee and ground lease payment will be paid to the University only upon the settlement of various expenses and if minimum cash requirements are made. Reimbursement of utilities expense will be subordinate to debt service. Ownership of the dorms will revert to Howard upon termination of the Ground Lease and full repayment of the debt. The University has not recorded any transactions related to potential future title to or ownership in the dorms for the year ended June 30, 2017.

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

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

(e) ***Campus Apartments***

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

(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 will handle 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.

(1) ***Residence Life Service Provider*** – In January 2017, as part of the afore mentioned 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 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.

(2) ***Renovation of Howard Plaza Towers*** – In January 2017, as part of the afore mentioned service concession 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.

Note 23 Subsequent Events

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.

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.

In August, 2017, the University (Lessor) entered into a ninety-nine (99) year Ground Lease with JBG Associates, LLC (Lessee) for the conversion of certain land located at the intersection of 9th and V Streets, NW, in the District of Columbia, along with certain other related personal property into rental housing. The lessee prepaid all Ground Rent for the ninety-nine (99) year term of the Ground Lease. These properties are currently subject to the Howard University Campus Plan (CMP). The University, at its expense will work with the Zoning Commission of the District of Columbia to have these properties removed from the CMP. The University, at its expense will also work with the Zoning Commission of the District of Columbia to have these properties subdivided as a "single lot of record" and use commercially reasonable efforts to enter into with the applicable Governmental Authorities a Combined Lot Development Covenant (CLD). The Lessee, as part of the agreement, will meet certain mission-oriented objectives of the University during the construction and renting of the units.

Howard performed an evaluation of subsequent events through November 21, 2017, which is the date the financial statements were available to be issued, noting no additional events which affect the consolidated financial statements as of June 30, 2017.