The Howard University

Consolidated Financial Statements

For Fiscal Years Ended June 30, 2018 and 2017

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HOWARD UNIVERSITY

OFFICE OF THE SENIOR VICE PRESIDENT
CHIEF FINANCIAL OFFICER AND TREASURER

December 19, 2018

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, 2018, as described in Note 11 of the accompanying financial statements.

Michael J. Masch

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

John D. Gordon

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

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Independent Auditor's Report

Board of Trustees
The Howard University
Washington, DC

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Howard University (the "University"), which comprise the consolidated statement of financial position as of June 30, 2018 and 2017, 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the year 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 2017 consolidated financial statements, and we expressed an unmodified opinion on those consolidated financial statements in our report dated November 21, 2017. In our opinion, the summarized comparative information presented herein as of and for the years ended June 30, 2017 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

BDO USA, LLP

December 19, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(*in thousands*)	June 30, 2018	June 30, 2017
Current Assets:		
Cash and cash equivalents	$ 32,998	$ 28,900
Operating investments	39,940	39,851
Deposits with trustees	1,732	401
Receivables, net	89,771	89,730
Inventories, prepaids and other current assets	11,862	8,579
Restricted Investments	49,988	43,911
Total Current Assets	**226,291**	**211,372**
Long Term Assets:		
Deposits with trustees	13,386	15,058
Receivables, net	22,607	21,659
Inventories, prepaids and other noncurrent assets	18,420	22,695
Unexpended bond proceeds	3,117	3,038
Restricted investments	4,126	3,302
Endowment investments	688,562	646,556
Operating right of use assets	3,764	4,599
Finance right of use assets	56,085	25,930
Long-lived assets	510,261	517,955
Total Long Term Assets	**1,320,328**	**1,260,792**
Total assets	**$1,546,619**	**$ 1,472,164**
Current Liabilities:		
Accounts payable and accrued expenses	$ 131,804	$ 96,792
Deferred revenue	15,710	15,097
Other liabilities	15,206	13,581
Accrued post-retirement benefits	3,842	4,325
Reserves for self-insured liabilities	10,392	16,752
Operating lease obligations	211	251
Finance lease obligations	7,732	3,520
Bonds payable	11,200	12,101
Total Current Liabilities	**196,097**	**162,419**
Long Term Liabilities:		
Deferred revenue	4,495	762
Other liabilities	5,949	6,606
Accrued post-retirement benefits	44,599	50,670
Underfunded defined benefit pension plan	116,807	139,046
Reserves for self-insured liabilities	56,699	57,462
Operating lease obligations	3,637	3,848
Finance lease obligations	47,024	25,595
Bonds payable	397,444	398,865
Refundable advances under Federal Student Loan	6,333	6,341
Total Long Term Liabilities	**682,987**	**689,195**
Total Liabilities	**879,084**	**851,614**
Net Assets:		
Unrestricted	233,839	222,165
Temporarily restricted	291,409	265,935
Permanently restricted	142,287	132,450
Total Net Assets	**667,535**	**620,550**
Total Liabilities and Net Assets	**$ 1,546,619**	**$ 1,472,164**

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended June 30, 2018 (with summarized comparative information for fiscal year ended June 30, 2017) (*in thousands*)	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2018	Summarized June 30, 2017
Operating					
Revenues and reclassifications:					
Academic services:					
Tuition and fees, net	$ 143,631	$ -	$ -	$ 143,631	$ 147,867
Grants and contracts	53,251	-	-	53,251	53,763
Auxiliary services	37,445	-	-	37,445	38,901
Clinical services:					
Patient service - Hospital, net	207,977	-	-	207,977	231,499
Patient service - Faculty medical practice, net	23,047	-	-	23,047	12,854
Patient service - Dental clinic, net	2,049	-	-	2,049	1,972
Public support:					
Federal appropriation	226,439	3,405	-	229,844	221,821
Contributions	17,904	6,768	8,439	33,111	15,739
Endowment transfer	9,967	11,492	738	22,197	15,128
Operating investment income (loss)	4,541	-	-	4,541	5,270
Real Property	20,535	-	-	20,535	3,811
Other income	14,984	-	59	15,043	14,538
Total revenues	**761,770**	**21,665**	**9,236**	**792,671**	**763,163**
Net assets released from restrictions	10,523	(10,523)	-	-	-
Total revenues and reclassifications	**772,293**	**11,142**	**9,236**	**792,671**	**763,163**
Expenses:					
Program services:					
Instruction	180,761	-	-	180,761	200,737
Research	41,928	-	-	41,928	40,555
Public service	12,250	-	-	12,250	11,079
Academic support	39,202	-	-	39,202	36,441
Student services	35,562	-	-	35,562	30,037
Patient care	254,327	-	-	254,327	241,131
Total program services	**564,030**	**-**	**-**	**564,030**	**559,980**
Supporting services:					
Institutional support	162,424	-	-	162,424	169,186
Auxiliary enterprises	65,366	-	-	65,366	65,635
Total supporting services	**227,790**	**-**	**-**	**227,790**	**234,821**
Total operating expenses	**791,820**	**-**	**-**	**791,820**	**794,801**
Income from defeased bonds	-	-	-	-	33,105
Operating revenues over (under) operating expenses	**(19,527)**	**11,142**	**9,236**	**851**	**1,467**
Non-operating					
Investment income (loss) in excess of amount designated	31,406	27,323	467	59,196	80,705
Endowment transfer	(8,973)	(12,991)	(233)	(22,197)	(15,128)
Net unrealized gain in beneficial interest trust	-	-	367	367	513
Restructuring costs	-	-	-	-	118
Change in funded status of defined benefit pension plan	15,436	-	-	15,436	32,753
Change in obligation for post-retirement benefit plan	(6,746)	-	-	(6,746)	(100)
Change in funded status of supplemental retirement plan	78	-	-	78	107
Increase (decrease) in non-operating activities	**31,201**	**14,332**	**601**	**46,134**	**98,968**
Change in net assets	**11,674**	**25,474**	**9,837**	**46,985**	**100,435**
Net assets, beginning of year	**222,165**	**265,935**	**132,450**	**620,550**	**520,115**
Net assets, end of year	**$ 233,839**	**$ 291,409**	**$ 142,287**	**$ 667,535**	**$ 620,550**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(*in thousands*)	June 30, 2018	June 30, 2017
Cash flows from operating activities		
Change in net assets	$ $46,985	$ 100,435
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by/(used in) operating activities:		
Depreciation and amortization	39,814	50,154
Bonds defeased	-	(33,105)
Bond discount amortization	221	223
Bonds issuance costs	255	254
Net realized gain on sale of investment	(39,755)	(47,384)
Unrealized (gain) loss on investments	(23,982)	(38,591)
Donated long-lived asset	(12,727)	-
Loss (gain) on sale/disposal of long-lived assets	(16,306)	1,210
Change and/or remeasurement of leases	-	2,714
Change in deposits with trustees	341	(808)
Change in receivables (excluding notes)	(8,059)	105,464
Change in allowance for doubtful receivables	5,671	6,743
Change in inventory, prepaid expenses and other assets	991	3,347
Change in Operating right of use assets	835	(641)
Change in accounts payable and accrued expenses and other	35,012	288
Change in deferred revenue	4,346	(92,707)
Change in other liabilities	968	(6,581)
(Decrease) increase in pension/post retirement liability	(28,793)	(40,245)
Change in reserve for self-insured liabilities	(7,123)	(12,997)
Change in operating lease obligation	(251)	-
Change in refundable advances under Federal Student Loan Program	(8)	(49)
Net cash and cash equivalents used in operating activities	**(1,565)**	**(2,276)**
Cash flows from investing activities		
Proceeds from sale of investments	454,112	481,023
Purchases of investments	(439,371)	(476,131)
Return on unexpended bond proceeds	(79)	1,989
Proceeds from property/land sale	18,392	-
Purchases and renovations of long-lived assets	(16,503)	(12,248)
Restricted contributions	(8,439)	(2,881)
Net cash and cash equivalents provided by/(used in) investing activities	**8,112**	**(8,248)**
Cash flows from financing activities		
Proceeds from notes payable	45,000	15,000
Payment on notes payable	(45,000)	(15,000)
Proceeds from bonds payable	-	-
Payment on bonds payable	(2,798)	(2,545)
Payment on interest rate swap	-	-
Principal payments on financing lease obligations	(9,490)	(6,945)
Student loans issued	(483)	(825)
Student loans collected	1,883	1,564
Proceeds from restricted contributions	8,439	2,881
Net cash and cash equivalents used in financing activities	**(2,449)**	**(5,870)**
Net (decrease) increase in cash and cash equivalents	4,098	(16,394)
Cash and cash equivalents at beginning of year	28,900	45,294
Cash and cash equivalents at end of period	**$ 32,998**	**$ 28,900**
Supplemental cash flow information:		
Cash paid for interest	$ 23,143	$ 21,650
Supplemental non-cash investing activities:		
Acquisition of equipment under financing leases	34,942	6,784
Donated long-lived assets	12,727	-
Stock distributions	2,434	1,560

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

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, 2018, and 2017, 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, 2018 and 2017 and determined that there were no uncertain tax positions that would have a material impact on Howard's consolidated financial statements.

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

The consolidated financial statements of Howard have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Howard has elected to show summarized comparative financial information with respect to the statement of activities for the year ended June 30, 2017. 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.

(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. There were no conditional contributions in 2018 or 2017, respectively. 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, 2018 and 2017 are shown below:

CONTRIBUTIONS REVENUE	2018	2017
Unrestricted	$ 17,904	$ 5,265
Temporarily restricted	6,768	7,578
Permanently restricted	8,439	2,896
TOTAL	**$ 33,111**	**$ 15,739**

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 deferred and 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.

NET TUITION REVENUE	2018	2017
Gross tuition and fees	**$ 259,701**	**$ 247,142**
Financial aid:		
Merit	68,463	57,775
Need	9,670	15,083
Talent	7,999	8,174
Other	29,938	18,243
Total financial aid	**$ 116,070**	**$ 99,275**
TOTAL NET TUITION	**$ 143,631**	**$ 147,867**

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, 2018 and 2017 was $116,070 and $99,275, respectively.

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

(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, 2018 and 2017, Howard received 29% and 29%, respectively, of its revenue support from the Federal appropriation. The $3,405 and $3,405, receivable for the fiscal years ended June 30, 2018 and 2017, 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.

(amounts in thousands)

NET PATIENT SERVICE REVENUE	2018	2017
Gross Revenues	**$ 713,815**	**$ 682,710**
Third-party settlement revenue	60,309	63,702
Contractual allowances and adjustments	(488,292)	(444,653)
Charity services	(10,445)	(4,200)
Bad debt	(42,314)	(51,234)
Total net patient service revenue	**$ 233,073**	**$ 246,325**
% of contractuals and charity services of gross revenues	**70%**	**66%**

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	2018	2017
Reimbursement of direct expenses	$ 45,413	$ 45,439
Recovery of indirect costs	7,838	8,324
Total grants and contracts revenue	**$ 53,251**	**$ 53,763**
Indirect costs recovery as a % of direct costs	**17%**	**18%**

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

GRANTS AND CONTRACTS REVENUE BY TYPE	2018	2017
Research	$ 34,839	$ 35,688
Training	11,665	9,490
Service/other	6,747	8,585
Total grants and contracts revenue by type	**$ 53,251**	**$ 53,763**

(amounts in thousands)

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

AUXILIARY SERVICES REVENUE	2018	2017
Student housing	$ 7,358	$ 12,925
Meal plans	16,457	12,841
Radio station	8,732	8,461
Bookstore	682	672
Parking fees	1,844	1,875
Vending sales and fees	1,006	888
Ticket sales	614	537
Licensing	150	109
Other	602	593
Total auxiliary services revenue	**$ 37,445**	**$ 38,901**

(6) **Real property** revenue is comprised of income and gains from real estate transactions including lease income and is recognized as revenue in the period it is earned and collectible. Revenue recognition for real property lease income transactions is disclosed in further detail in Note 10.

(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.

(amounts in thousands)

(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. 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.

For fiscal years ending 2018 and 2017, Howard had debt issuance costs related to the 2010, 2011 and 2016 bonds of $4,428 and $4,683, respectively.

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

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

The recorded values of certain properties include the fair value of any environmental remediation necessary to meet contractual or regulatory requirements for disposal or remediation of the property. This primarily pertains to the cost of removal and disposal of asbestos.

(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, 2018 and 2017 the obligation was $4,840 and $4,444, 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 gains and losses from real estate related transactions which were previously recorded as non-operating items. Howard uses a spending rate methodology to determine the amount of endowment assets allocated to operations in a given year. Non-operating income and expenses include realized and unrealized appreciation (depreciation), investments, changes in retirement plan liabilities due to market factors, restructuring credits and (costs) that do not pertain to continuing core program services.

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

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2018-13 Fair Value Measurement (Topic 820) *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the Concepts Statement, including the consideration of costs and benefits. Howard is currently evaluating the impact of this amendment on its financial statements.

In June 2018, the FASB issued ASU number 2018-08 (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this Update should assist entities in 1.) Evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-For-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2.) Determining whether a contribution is conditional. Howard is currently evaluating Topic 958 and its impact on its fiscal year 2019 financial statements.

In January 2018, the FASB issued ASU number 2018-01 (Topic 842), *Leases: Land Easement Practical Expedient for Transition to Topic 842*. The ASU provides optional transition practical expedient for the adoption of ASU 2016-02 Leases and clarifies that new or modified land easements should be evaluated under ASU 2016-02 once an entity has adopted the new standard. Howard early adopted ASU 2016-02 Leases in fiscal year 2016 and will apply the provisions of ASU 2018-01 in its current reporting where applicable.

In July 2017, the FASB issued 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 2019.

In May 2017, the FASB issued ASU number 2017-10 (Topic 853), *Service Concession Agreements: Determining the Customer of the Operations Services*. Topic 853 provides guidance for operating entities when they enter into a service concession arrangement with a public-sector grantor. Howard has reviewed the guidance under Topic 853 and has determined that its service concession agreements do not fall under this guidance and is not applicable to its operations.

In March 2017, the FASB issued 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 FASB issued 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 FASB issued 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 FASB issued ASU number 2016-18 (Topic 230), *Statement of Cash Flows.* The ASU provides guidance on all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. 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 2019.

In August 2016, the FASB issued ASU number 2016-15 (Topic 230), *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments.* The ASU provides guidance *on* all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. 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 2019.

In August 2016, the FASB issued 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 FASB issued ASU number 2016-01 (Subtopic 825-10), *Financial Instruments—Overall.* The ASU provides guidance on certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Board also 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)

(amounts in thousands)

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.

In April 2015, the FASB issued 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 was adopted in fiscal year 2017.

(r) ***Reclassifications***

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.

2. Receivables

Accounts receivable, prior to adjustment for doubtful collections, are summarized as follows at fiscal years ended June 30, 2018 and 2017:

RECEIVABLES	2018	2017
Student	$ 33,140	$ 38,372
Notes	13,467	14,867
Federal appropriation	3,405	3,405
Patients and third-party payors - Hospital	87,493	86,729
Patients and third-party payors - FPP	6,656	7,552
Patients and third-party payors - Dental	1,908	2,401
Grants and contracts	16,477	13,283
Contributions	10,726	6,052
Insurance claims	3,954	-
Auxiliary services	5,190	5,600
Other	6,447	3,943
Total	**$ 188,863**	**$ 182,204**

(amounts in thousands)

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

Allowance for doubtful receivables is summarized as follows at fiscal years ended June 30, 2018 and 2017:

ALLOWANCE FOR DOUBTFUL ACCOUNTS	2018	2017
Student	$ 12,520	$ 20,531
Notes	6,421	7,315
Patients and third-party payors - Hospital	49,657	36,315
Patients and third-party payors - FPP	3,199	1,270
Patients and third-party payors - Dental	538	1,082
Grants and contracts	616	616
Contributions	3,029	2,867
Insurance claims	-	-
Auxiliary services	506	819
Other	-	-
Totals	**$ 76,486**	**$ 70,815**
Total receivables, net	**$ 112,377**	**$ 111,389**

Provision for bad debt is summarized as follows at fiscal years ended June 30, 2018 and 2017:

PROVISION FOR BAD DEBT	2018	2017
Non-clinical services:		
Student services	$ 6,276	$ (1,614)
Notes	(788)	1,532
Grants and contracts	-	(500)
Contributions	162	812
Other	22	(7)
Total non-clinical	**$ 5,672**	**$ 223**
Clinical services:		
Patients and third-party payors - Hospital	36,292	38,245
Patients and third-party payors - FPP	6,221	12,905
Patients and third-party payors - Dental	(199)	84
Total clinical services	**$ 42,314**	**$ 51,234**
Total provision for bad debt	**$ 47,986**	**$ 51,457**

Bad debt expense of $5,672 and $223 for fiscal years ended June 30, 2018 and 2017, respectively, reflected in total operating expenses under Institutional support on the statements of activities excludes bad debt expense related to certain clinical services determined to be uncollectible. Clinical services bad debt expense, as shown in the table above, has been netted against patient service revenues.

(amounts in thousands)

Contributions receivable at June 30, 2018 and 2017 are expected to be received as follows:

CONTRIBUTIONS RECEIVABLE	2018	2017
Within one year	$ 4,510	$ 2,829
Between one and five years	6,960	3,355
Thereafter	394	552
Contributions receivable gross	11,864	6,736
Unamortized discount on contributions receivable (2%-6.5%)	(1,138)	(684)
Contributions receivable, net of discounts	10,726	6,052
Allowance for uncollectible contributions	(3,029)	(2,867)
Contributions receivable, net of discounts and allowance	$ 7,697	$ 3,185

3. Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts at fiscal years ended June 30, 2018 and 2017 are as follows:

INVENTORIES, PREPAIDS, AND OTHER ASSETS	2018	2017
Inventories - Hospital	$ 3,784	$ 4,097
Prepaid expenses	7,738	6,755
Dialysis joint venture interest	4,753	5,054
Beneficial interest trust	5,968	5,601
Self-insured assets	6,248	7,972
Intellectual property costs	1,240	1,337
Other	552	458
Total	**$ 30,283**	**$ 31,274**

(amounts in thousands)

4. Deposits with Trustees and Self-insured Liabilities

DEDICATED ASSETS		
	2018	**2017**
Debt service reserve	$ 13,386	$ 13,220
Professional liability	-	-
Workers' compensation	4	9
Health insurance trust	1,728	2,230
Total	**$ 15,118**	**$ 15,459**
LIABILITIES		
	2018	**2017**
Professional liability	$ 46,979	$ 53,976
Workers' compensation	14,442	15,861
Health insurance trust	5,670	4,377
Total	**$ 67,091**	**$ 74,214**

(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, 2018. 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, 2018 and 2017 of approximately $46,979 and $53,976, respectively is adequate to provide for losses resulting from probable asserted and unasserted claims and pending or threatened litigation.

(amounts in thousands)

Professional liability activity is summarized as follows for fiscal years ended June 30, 2018 and 2017 in the table below.

PROFESSIONAL LIABILITY	2018	2017
Beginning balance	$ 53,976	$ 59,127
Malpractice claims expense	6,153	6,081
Settlement payments	(13,150)	(11,232)
Ending balance	**$ 46,979**	**$ 53,976**

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

Prior to July 1, 2012, Howard had established a revocable trust fund to partially provide for the satisfaction of its liability under applicable workers' compensation liability. The assets in the workers' compensation trust fund consisted of U.S. Treasury Bills and obligations, as well as domestic and foreign corporate bonds. As of June 30, 2018, workers' compensation liabilities are being satisfied as claims arise. For fiscal years ended June 30, 2018 and 2017, Howard maintained $6,248 and $7,972 in letters of credit, respectively, which serve as collateral for specific insurance carriers. Howard is self-insured for workers' compensation claims up to per occurrence retention of $500. The excess is covered through commercial insurance.

For fiscal years ended June 30, 2018 and 2017 expenses related to workers' compensation were $2,318 and $5,670, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately $14,442 and $15,861 at June 30, 2018 and 2017, 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 at June 30, 2018 and 2017, net of allowances for uncollectible amounts and are reflected in other receivables.

(d) ***Health Insurance***

Prior to July 1, 2012, Howard established a revocable self-insured trust fund for the purpose of partially funding group health benefits for its employees. The assets consisted primarily of investments in money market funds. As of June 30, 2018, health insurance claims are being funded as incurred. Deposits to the fund are amounts withheld from employees' salaries and wages and Howard's contributions based on estimates established by the claims administrator. Disbursements from the fund are made in accordance with the payment plan established with the claims administrator. The total estimated liability for asserted and unasserted probable claims at June 30, 2018 and 2017, is approximately $5,670 and $4,377, respectively.

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 a hierarchy which consists of three categories for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date as follows:

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

Howard's financial assets and liabilities as of June 30, 2018 and 2017 are subject to fair value accounting.

(amounts in thousands)

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

FAIR VALUE AS OF JUNE 30, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Unexpended bond proceeds (6)	$ -	$ 3,117	$ -	$ 3,117
Deposits with trustees (7)	1,732	13,386	-	15,118
Other assets (8)	6,248	-	5,968	12,216
Total assets (non investment)	**$ 7,980**	**$ 16,503**	**$ 5,968**	**$ 30,451**
Operating investments				
Common Stock (3)	39,940	-	-	39,940
Total operating investments	**$ 39,940**	**$ -**	**$ -**	**$ 39,940**
Restricted investments				
Money Market Instrument (1)	-	1,036	-	1,036
Common Stock (3)	49,672	-	-	49,672
Private Equity (4)	-	-	3,156	3,156
Real Estate (4)	-	-	250	250
Total restricted investments	**$ 49,672**	**$ 1,036**	**$ 3,406**	**$ 54,114**
Endowment investments				
Money Market Fund (1)	8,870	50,901	-	59,771
Comingled Funds				
Emerging Market Equity (3)	-	35,128	-	35,128
Global Fixed Income Security (2)	-	38,588	-	38,588
International Equity Security (3)	-	118,435	-	118,435
Domestic Common Stock (3)	-	-	-	-
Commodity Inflation Hedging (8)	-	12,897	-	12,897
Common Stock (3)	63,351	-	-	63,351
Fixed Income				
Mortgage Backed Securities (2)	-	-	-	-
Corporate Bond (2)	-	12	-	12
Government Bond (2)	-	-	-	-
Hedge Funds				
Distressed Debt (4)	-	-	-	-
Equity Long/short (4)	-	20,777	-	20,777
Event driven (4)	-	-	12	12
Global opportunities (4)	-	5,832	-	5,832
Multi-strategy (4)	-	34,585	2	34,587
Credit Opportunities (4)	-	10,150	-	10,150
Mutual Funds				
Emerging Market Equity Security (3)	15,458	-	-	15,458
Domestic Common Stock (3)	36,527	-	-	36,527
Domestic Fixed Income (2)	83,341	-	-	83,341
International Equity Security (3)	10,069	-	-	10,069
Private Equity and Venture Capital (4)	-	-	105,268	105,268
Real estate (4)	-	-	38,698	38,698
Total endowment investments	**$ 217,616**	**$ 327,305**	**$ 143,980**	**$ 688,901**
Total investments	**$ 307,228**	**$ 328,341**	**$ 147,386**	**$ 782,955**
Assets not subject to fair value reporting	718	-	-	718
Liabilities not subject to fair value reporting	(1,057)	-	-	(1,057)
Total assets and liabilities measured at fair value	**$ 314,869**	**$ 344,844**	**$ 153,354**	**$ 813,067**

Level 3 investments were 19% of total investments.

(amounts in thousands)

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.

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 underlying trust assets comprise of a variety of investments, primarily exchange-traded funds and corporate fixed income. The fair value of this interest has been measured using the income approach as there is no active principal market trading in this interest. This interest was valued using the quoted market value for the underlying marketable securities of the Trust discounted for expected

(amounts in thousands)

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.

(9) Assets and liabilities not subject to fair value reporting represent exchanges between the University and its investment managers that have been entered into but not settled by the reporting date of June 30, 2018. These transactions are shown net with endowment investments.

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

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, 2018 is as follows:

CHANGES IN LEVEL 3 FOR THE PERIOD ENDED JUNE 30, 2018	Private Equity and Venture Capital	Hedge Funds	Real Estate	Other Assets	Total
Balance July 1, 2017	$ 87,511	$ 74	$ 21,786	$ 5,601	$ 114,972
Gain and Loss (Realized and unrealized)	11,881	(60)	5,082	367	17,270
Acquisitions	29,321	-	19,600	-	48,921
Sales	(20,289)	-	(7,520)	-	(27,809)
Balance June 30, 2018	**$ 108,424**	**$ 14**	**$ 38,948**	**$ 5,968**	**$ 153,354**
Change in unrealized investments held	**$ 11,353**	**$ 2**	**$ 9,050**	**$ 367**	**$ 20,772**

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

(amounts in thousands)

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.

Net investment income (loss) is summarized as follows for fiscal years June 30, 2018 and 2017:

NET INVESTMENT INCOME (LOSS)	2018	2017
Interest and dividends	$ 9,728	$ 13,559
Net realized gains	35,004	37,535
Net unrealized gains (losses)	23,982	38,591
Other investment income, net of expense	297	99
Investment expenses	(5,274)	(3,809)
Net investment income (loss)	**$ 63,737**	**$ 85,975**
Current year unrestricted operating return (loss)	**$ 4,541**	**5,270**
Current year non-operating investment return (loss):		
Unrestricted	31,406	41,152
Restricted	27,790	39,553
Total current year investment return	**$ 63,737**	**$ 85,975**
Prior year return designated for current operations:		
Unrestricted	(9,967)	(6,954)
Restricted	(12,230)	(8,174)
Total designated for current operation	**$ (22,197)**	**$ (15,128)**
Net non-operating investment return:		
Unrestricted	21,439	34,198
Restricted	15,560	31,379

(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, 2018 and 2017. 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, 2018	Fair Value	Unfunded Commitments	Redemption / Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge funds	$ 71,358	$ -	Monthly - Annually	45 - 90 days
Real estate funds	38,948	16,934	-	2 – 10 years
Common/collective trusts	205,161	-	Monthly	-
Limited partnerships	108,424	67,330	-	≤ 10 years

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

6. Endowment Fund

Howard's endowment includes approximately 900 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.

(amounts in thousands)

As of fiscal years ended June 30, 2018 and 2017 total endowment funds classified as permanently restricted and temporarily restricted net assets were:

RESTRICTED ENDOWMENT	2018	2017
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:	**$ 94,720**	**$ 90,663**
Temporarily Restricted Net Assets		
Time restricted funds	155,010	146,907
The portion of perpetual endowment funds subject to a time restriction under DC UPMIFA:		
Without purpose restrictions	4,543	4,048
With purpose restrictions	63,723	56,662
Total endowment funds classified as temporarily restricted net assets	**$ 223,276**	**$ 207,617**

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

ENDOWMENT CHANGE IN VALUE FOR PERIOD ENDING JUNE 30, 2018	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, beginning of year	**$ 351,681**	**$ 207,617**	**$ 90,663**	**$ 649,961**
Adjustment to Beginning Balance	-	-	-	-
Adjusted Beginning Balance	**$ 351,681**	**$ 207,617**	**$ 90,663**	**$ 649,961**
Investment return:				
Investment income	3,965	4,893	151	9,009
Net appreciation (realized and unrealized)	20,039	22,768	285	43,092
Total investment return	**$ 24,004**	**$ 27,661**	**$ 436**	**$ 52,101**
Contributions	1,230	3,413	3,627	8,270
Appropriation of endowment assets for operations	(8,973)	(12,996)	(228)	(22,197)
Other changes:				
Match release	2,566	(2,566)	-	-
Transfer and other changes	3,463	147	222	3,832
Endowment net assets, end of year	**$ 373,971**	**$ 223,276**	**$ 94,720**	**$ 691,967**
Donor-restricted endowment funds	(3,209)	223,276	94,720	314,787
Board-designated endowment funds	377,180	-	-	377,180
Endowment net assets, end of year	**$ 373,971**	**$ 223,276**	**$ 94,720**	**$ 691,967**

(amounts in thousands)

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 ENDING 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**

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, 2018 and 2017 receivables of $3,405 and $3,405, respectively were recorded, and represent the difference between endowment investments reflected on consolidated statements of financial position and endowment net assets reported above.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or the Trustees require Howard to retain as a fund of perpetual duration. Deficiencies of this nature, so called "underwater accounts", are reported in unrestricted net assets and totaled $3,209 and $4,740 as of fiscal years ended June 30, 2018 and 2017, 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 diversified investment program designed to exceed the risk-adjusted performance of the market benchmark representative of each asset class over rolling five to seven year periods. Howard's objective, over time, is to obtain an average total real rate of return (inflation adjusted) that exceeds its targeted distribution amount over rolling five to seven year periods. Howard's investment strategy aims for a low to moderate level of investment risk. Actual returns in any given year may significantly vary from this objective.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - Howard's spending policy allows for distribution each year of up to 4 percent of its endowment fund's market value, excluding Federal term and Islamic Funds, based upon a three-year moving average with the most recent year removed. In establishing this policy, Howard considered the long-term expected return on its endowment consistent with its general goal of facilitating the ability of endowments (specifically permanent and time specific endowments) to best fulfill the purposes for which they were designed.

(amounts in thousands)

7. Long-Lived Assets

LONG-LIVED ASSETS	2018	2017
Land and land improvements	$ 40,750	$ 27,996
Buildings and building improvements	871,565	876,234
Property held for expansion	56,929	54,819
Property held under leases	28,773	28,236
Furniture and equipment	331,188	332,674
Library books	92,106	91,736
Software	115,988	118,532
Software in progress	369	111
Construction in progress	12,714	10,390
Long-lived assets, gross	1,550,382	1,540,728
Accumulated depreciation and amortization	(1,040,121)	(1,022,773)
Long-lived assets, net	**$ 510,261**	**$ 517,955**

For the fiscal year ended June 30, 2018 there were $18,392 in sales, disposals and retirements and for the fiscal year ended June 30, 2017 there were $1,210 in disposals.

Depreciation expense for the years ended June 30, 2018 and 2017 were $40,491 and $45,133, respectively. For fiscal years ended June 30, 2018 and 2017, respectively, net interest costs of $0 and $0 were incurred during construction and capitalized as part of the cost of capital projects.

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

(amounts in thousands)

8. Accounts Payable and Accrued Expenses

Components of this liability account at fiscal years ended June 30, 2018 and 2017 are as follows:

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	2018	2017
Vendor invoices	$ 94,356	$ 59,688
Accrued salaries and wages	24,268	23,652
Accrued employee benefits	3,807	3,261
Accrued annual leave	4,840	4,444
Accrued faculty retirement incentive payments	-	1,008
Accrued interest	4,475	4,649
Other	58	90
Total	**$ 131,804**	**$ 96,792**

9. Other Liabilities and Deferred Revenue

These obligations include the following at fiscal years ended June 30, 2018 and 2017:

OTHER LIABILITIES	2018	2017
Environmental liabilities	$ 4,799	$ 5,093
Residence halls	5,621	1,806
Unclaimed property	3,380	3,681
Student deposits and refunds	1,487	3,329
Reserve for legal contingencies	2,450	1,600
Deposits held in custody for others	1,309	703
Other	2,109	3,975
Total	**$ 21,155**	**$ 20,187**

DEFERRED REVENUE	2018	2017
Deferred tuition, room and board	$ 1,727	$ 3,145
Deferred grant revenue	13,186	11,190
Deferred savings incentive revenue	575	1,175
Other	4,717	349
Total	**$ 20,205**	**$ 15,859**

(amounts in thousands)

Amounts for the fiscal years ended June 30, 2018 and 2017, were as follows:

ENVIRONMENTAL LIABILITIES	2018	2017
Accumulated depreciation	$ (4)	$ -
Accretion expense	-	43
Environmental liabilities	4,799	5,093
Total	**$ 4,795**	**$ 5,136**

Howard incurred costs related to remediation during fiscal years ended June 30, 2018 and 2017 of $294 and $1,177, respectively.

10. Leases

Lease Obligations

In fiscal year 2016, Howard University elected to adopt ASC 842 – *Leases*. The new standard defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (the underlying asset) for a period of time in exchange for consideration.

The primary difference between accounting for leases under ASC 840 and the new guidance under ASC 842 is the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. Accordingly, Howard has recognized all lease assets and liabilities, with certain exceptions, on its statements of financial position. Both financing leases and operating leases create an asset (right-of-use or ROU asset) and a liability measured at the present value of the lease payments.

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

a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

b. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

c. The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.

d. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with paragraph 842-10-30-5(f) equals or exceeds substantially all of the fair value of the underlying asset.

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

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

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

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

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

Finance Leases

In June 2017, Howard University entered into a seven-year network management service agreement with IBM, which commenced on August 1, 2017, for equipment that included an imbedded lease. The agreement is to achieve efficiencies and improvements to the University's IT services and infrastructure. Howard considered that the agreement grants the University the rights to control and direct the use of the equipment and software upon installation, as well as to obtain the economic benefits from the use of the equipment and software in determining that the contract contains a lease. Further, there is specific documentation that identifies the specific assets installed. Howard has elected to use the practical expedient election under ASC 842-10-15-37, which allows the lessee to not separate non-lease components from lease components and instead account for each lease component as a single lease.

Howard determined that the lease is a finance type lease as there is transfer of ownership of the underlying assets, and the lease term is equal to 75% or more of the economic life of the underlying assets. Howard has the right to terminate the IBM agreement upon at least 90 days written notice. There is no extension to the initial term unless a new statement of work is enacted. The contract covers all properties of the University including 75 buildings set forth in several phases identified as the "transition and transformation phase." The consideration for the lease consists of annual fixed lease payments. The discount used to calculate the present value of the lease asset and obligation was the incremental borrowing rate of 6.5% for the University.

(amounts in thousands)

Howard is obligated under other finance leases for office, technology and medical equipment that extend through 2024, and the chiller plant that extends through 2031, in the amounts of $54,756 and $29,115, respectively at fiscal years ended June 30, 2018 and 2017. 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:

RIGHT OF USE ASSETS – FINANCE LEASE	2018	2017
Right of use assets - financing	$ 121,944	$ 85,152
Accumulated amortization	(65,859)	(59,222)
Right of use assets, net	**$ 56,085**	**$ 25,930**

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, 2018, 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	
2019	$ 11,350
2020	10,003
2021	9,520
2022	8,871
2023	8,208
2024 and thereafter	26,663
Obligation, gross	74,615
Amounts representing interest rates from 2% to 10%	(19,859)
Total Lease Obligations, net	**$ 54,756**

(amounts in thousands)

At June 30, 2018, 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 principal and interest years ending June 30		
2019	$	3,618
2020		3,155
2021		2,703
2022		2,257
2023		1,817
2024 and thereafter		6,309
Total Lease Obligations interest	**$**	**19,859**

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, 2018 and 2017 was $6,837 and $9,626, 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 LEASE	2018	2017
Right of use assets - operating	$ 3,764	$ 4,599
Right of use assets, net	**$ 3,764**	**$ 4,599**

(amounts in thousands)

At June 30, 2018, the minimum future payments under operating leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follows:

LEASE OBLIGATIONS	OPERATING LEASES	
Future principal and interest years ending June 30		
2019	$	455
2020		453
2021		467
2022		482
2023		500
2024 and thereafter		3,063
Obligation, gross	$	5,420
Amounts representing interest rates from 2% to 10%		(1,572)
Total Operating Lease Obligations, net	**$**	**3,848**

LEASE OBLIGATIONS - INTEREST	OPERATING LEASES	
Future interest years ending June 30		
2019	$	244
2020		230
2021		215
2022		197
2023		178
2024 and thereafter		509
Total Lease Obligations Interest	**$**	**1,573**

Lease Income

Sales-Type Lease

In August 2017, Howard entered into lease contracts related to the Carver Hall transaction and the Slowe Hall transactions and determined the leases were sales-type leases under ASC 842. The ground leases were assessed as sales-type leases due to the length of the term (99 years) and the fair value of the land and building relative to the consideration received. Because of these factors, the net investment in the leases were determined to be zero. There are no residual value guarantees, renewal options, or variable lease payments.

As a result of both ground leases, Howard recognized gains of $6,891 and $9,415, respectively, in its statements of activities for the year ended June 30, 2018 and removed the related land and building assets from its books.

(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 Barry Place). 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 2024 and thereafter. The total lease income received for fiscal years ended June 30, 2018 and 2017 was $3,965 and $2,059, respectively and are reported in real property revenue on the statements of activities.

LEASE INCOME	**2018**	**2017**
Sales Type Lease Income		
Lease Payments	$ 18,392	$ -
Less: Leased Assets Book Values	$ 2,086	$ -
Total Sales Type Lease Income	$ 16,306	$ -
Operating Lease Income	$ 3,965	$ 2,059
Total Lease Income	**$ 20,271**	**$ 2,059**

(amounts in thousands)

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

FUTURE MINIMUM LEASE INCOME	JUNE 30
2019	$ 1,809
2020	1,830
2021	1,872
2022	1,932
2023	1,960
2024 and thereafter	18,004
Total Minimum Lease Income Receipts	**$ 27,407**

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

LEASE EXPENSE	2018	2017
Finance lease expense:		
Amortization of right of use assets	$ (676)	$ 7,526
Interest on lease liabilities	3,951	2,345
Operating lease expense	542	456
Total	**$ 3,817**	**$ 10,327**
Other information	**2018**	**2017**
Cash paid for amounts included in the measurements of lease liabilities for finance leases:		
Operating cash flows	$ 3,951	$ 2,345
Financing cash flows	9,490	6,945
Cash paid for amounts included in the measurement of lease liabilities for operating leases:		
Operating cash flows	835	409
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	34,942	6,784
Operating leases	-	2,818
Weighted-average remaining lease term (in years):		
Finance leases	8.38	10.22
Operating leases	10.44	11.48
Weighted-average discount rate:		
Finance leases	7.14%	7.57%
Operating leases	6.50%	6.50%

(amounts in thousands)

11. Bonds and Notes Payable

(a) *Bonds Payable*

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

BONDS PAYABLE	2018	2017
District of Columbia issues:		
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 6,161	$ 6,847
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	192,145	192,145
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035	59,639	61,750
2016 Revenue bonds 1.98% Serial due 2015 through 2031	160,000	160,000
Total bonds payable, gross	**$ 417,945**	**$ 420,742**
Unamortized bond premium (discount)	(4,873)	(5,093)
Unamortized bond issuance costs	(4,428)	(4,683)
Total bonds payable, net	**$ 408,644**	**$ 410,966**

(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, 2018 the fund balance was $13,386.

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.

(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 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, 2018 and 2017.

(3) **2016 Revenue Bonds**

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

(4) **Fair Value of Bonds**

Currently the estimated fair value of Howard’s bonds is determined based on quoted market prices. At fiscal years ended June 30, 2018 and 2017, the estimated fair value was approximately $436,340 and $437,210, 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.

(amounts in thousands)

(b) ***Notes Payable***

In June 2016, Howard entered into a $75,000 JP Morgan Chase Revolving Credit Agreement. There was no outstanding balance at June 30, 2018 and 2017. 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.

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

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

COVENANT	INSTRUMENT	MEASUREMENT DATE	CRITERIA
Debt Service Coverage Ratio	2011 Revenue Bonds	June 30 each year	1.10:1.00
Debt Service Coverage Ratio	2016 Revenue Bonds	June 30 each year	1.10:1.00
Liquidity Ratio	Revolving Credit Agreement	Quarterly	$160 million

At June 30, 2018 and 2017, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 and 2016 Revenue Bonds and the Revolving Credit Agreement.

(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	2018	2017
2018	$ -	$ 12,101
2019	11,675	12,079
2020	13,736	14,148
2021	14,502	14,957
2022	15,316	15,786
2023	16,148	16,643
2024 and thereafter	346,568	335,028
Subtotal	417,945	420,742
Bond premiums/(discounts)	(4,873)	(5,093)
Bond issuance costs	(4,428)	(4,683)
Total	**$ 408,644**	**$ 410,966**

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.

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 $1,383 and $1,533 at fiscal years ended June 30, 2018 and 2017, respectively. The amounts not yet reflected in operating expenses, but included in unrestricted net assets pertain to accumulated losses of $921 and $999 at June 30, 2018 and 2017, 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, 2018 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 $18,231 and $22,052 for fiscal years ended June 30, 2018 and 2017, respectively. The fair value of plan assets for the savings plan for fiscal years ended June 30, 2018 and 2017 were $982,470 and $970,291, 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.

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, 2018 and 2017 are as follows:

(amounts in thousands)

	Pension		Medical and Life Insurance		Supplemental	
Retirement Benefits	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Change in benefit obligation						
Projected benefit obligation at beginning of year	$ 679,561	$ 701,879	$ 54,995	$ 67,608	$ 1,533	$ 1,711
Service Cost	-	-	223	588	-	-
Interest Cost	26,610	26,375	2,140	2,588	57	62
Actuarial (gain)/loss	(8,085)	(11,013)	(6,110)	(3,445)	37	4
Benefits paid	(41,294)	(37,680)	(3,624)	(4,676)	(244)	(244)
Medicare Part D subsidy	-	-	-	72	-	-
Employee contributions	-	-	817	895	-	-
Plan curtailments			-	-	-	-
Plan amendments	-	-	-	(8,635)	-	-
Projected benefit obligation at end of period	**$ 656,792**	**$ 679,561**	**$ 48,441**	**$ 54,995**	**$ 1,383**	**$ 1,533**
Change in plan assets:						
Fair value of plan assets at beginning of year	540,515	535,201	-	-	-	-
Actual return on plan assets	29,531	42,994	-	-	-	-
Employer contributions	11,233	-	2,807	3,709	-	-
Employee contributions	-	-	817	895	244	244
Medicare Part D subsidy	-	-	-	72	-	-
Benefits paid	(41,294)	(37,680)	(3,624)	(4,676)	(244)	(244)
Fair value of plan assets at end of period	**$ 539,985**	**$ 540,515**	**$ -**	**$ -**	**$ -**	**$ -**
Total	**$ (116,807)**	**$ (139,046)**	**$ (48,441)**	**$ (54,995)**	**$ 1,383**	**$ 1,533**

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at fiscal years ended June 30, 2018 and 2017:

	Pension		Medical and Life Insurance		Supplemental	
Retirement Benefits	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Recognized in Statement of Activities						
Amortization of transition obligation	$ -	$ -	$ -	$ -	$ -	$ -
Amortization of prior service cost	100	100	-	-	-	-
Amortization of net actuarial loss	8,695	9,467	458	581	115	112
Total amortization	**$ 8,795**	**$ 9,567**	**$ 458**	**$ 581**	**$ 115**	**$ 112**
Service Cost	-	-	223	588	-	-
Interest Cost	26,610	26,375	2,140	2,588	57	62
Curtailment recognition of prior service credit	-	-	(13,314)	(11,825)	-	-
Expected return on plan assets	(30,975)	(30,821)	-	-	-	-
Recognized in operating expenses	**$ 4,430**	**$ 5,121**	**$ (10,493)**	**$ (8,068)**	**$ 172**	**$ 174**
Amortization of transition obligation	-	-	-	-	-	-
Amortization of prior service cost	(100)	(100)	-	-	-	-
Amortization of net actuarial loss	(8,695)	(9,467)	(458)	(581)	(115)	(112)
Total amortization	**$ (8,795)**	**$ (9,567)**	**$ (458)**	**$ (581)**	**$ (115)**	**$ (112)**
Net actuarial (gain) loss during the year	(6,641)	(23,187)	(6,110)	(2,509)	37	4
Curtailment recognition of prior service credit	-	-	13,314	11,825	-	-
New prior service costs arising during period	-	-	-	(8,635)	-	-
Total recognized in other changes in unrestricted net assets	**$ (15,436)**	**$ (32,754)**	**$ 6,746**	**$ 100**	**$ (78)**	**$ (108)**
Total recognized in Statements of Activities	**$ (11,006)**	**$ (27,633)**	**$ (3,747)**	**$ (7,968)**	**$ 94**	**$ 66**

(amounts in thousands)

Amounts included in unrestricted net assets at fiscal years ended June 30, 2018 and 2017:

Retirement Benefits	Pension		Medical and Life Insurance	
	2018	2017	2018	2017
Net actuarial loss	$ (252,754)	$ (268,089)	$ 303	$ (6,265)
Prior service cost	(2,301)	(2,401)	13,296	26,610
Total	**$ (255,055)**	**$ (270,490)**	**$ 13,599**	**$ 20,345**

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 $8,296, $100, and $0, respectively.

Contributions to the pension plan of $11,234 and $0, were made in fiscal years ended June 30, 2018 and 2017, respectively. Contributions of $14,264 are projected for fiscal year 2019.

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2018 and 2017 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2018	2017	2018	2017
Discount rate	4.39%	4.05%	4.40%	4.05%
Expected return on plan assets	7.00%	7.00%	0.00%	0.00%
Rate of compensation increase	-	-	3.50%	3.50%

The weighted average assumptions used to determine net periodic cost in the actuarial valuations for fiscal years ended June 30, 2018 and 2017 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2018	2017	2018	2017
Discount rate	4.05%	3.88%	4.05%	3.96%
Expected return on plan assets	7.00%	7.00%	0.00%	0.00%
Rate of compensation increase				
To age 35	-	-	3.50%	3.50%
Thereafter	-	-	3.50%	3.50%

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

(amounts in thousands)

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

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

Level 3 investments were 17% of total plan investments.

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

(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.

(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, 2018.

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

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**

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, 2018 and 2017. 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, 2018	Fair Value	Unfunded Commitments	Redemption / Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge funds	$ 24,333	$ -	Monthly - Annually	45 - 90 days
Real estate funds	27,611	28,128	-	2 – 10 years
Common/collective trusts	113,686	-	Monthly	-
Limited partnerships	66,827	30,335	-	≤ 10 years

(amounts in thousands)

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

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

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

PENSION PLAN ASSET ALLOCATION	2018	2017	Allowable Range
Mid-Large Cap U.S. Equity	9.7%	10.2%	7-23%
Small Cap U.S. Equity	3.8%	2.6%	1-5%
International Equity - Developed	16.8%	18.2%	7-17%
Private Equity/Venture Capital	11.7%	11.7%	2-20%
Hedge Funds	4.5%	2.5%	1-5%
Inflation Hedging	6.9%	8.9%	1-5%
Emerging Markets Equity	3.4%	6.1%	2-8%
Real Estate	4.5%	0.0%	3-11%
Liability Hedging Assets	36.9%	39.3%	25-45%
Cash and Cash Equivalents	1.7%	0.5%	0-5%
Total	**100%**	**100%**	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2018 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.

(amounts in thousands)

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:				
2019	$ 46,885	$ 3,987	$ 145	$ 4,132
2020	47,003	3,931	141	4,072
2021	46,720	3,851	136	3,987
2022	46,519	3,777	130	3,907
2023	45,993	3,672	123	3,795
Years 2024-2028	218,014	16,945	511	17,456
Total	**$ 451,134**	**$ 36,163**	**$ 1,186**	**$ 37,349**

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%

(amounts in thousands)

13. Net Assets

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

TEMPORARILY RESTRICTED NET ASSETS	2018	2017
Scholarships	$ 61,011	$ 54,494
Professorships	39,412	36,232
Student loans	2,220	1,987
Federal term endowment	144,119	132,739
General operations and other	44,647	40,483
Total	**$ 291,409**	**$ 265,935**

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, 2018 and 2017, the transfer amounts were $719 and $11,985, 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	2018	2017
Scholarships	$ 60,979	$ 58,465
Professorships	27,538	25,783
Student loans	36,076	35,287
General operations and other	17,694	12,915
Total	**$ 142,287**	**$ 132,450**

Release from restrictions of temporarily restricted net assets 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, 2018 and 2017 are as follows:

(amounts in thousands)

NET ASSETS RELEASED FROM RESTRICTIONS	2018	2017
Federal term	$ 2,566	$ 11,985
Restrictions released based on purpose:		
Scholarships and fellowships	3,491	3,596
Professorships	1,513	1,522
Student loans	162	128
General operations and other	2,791	2,234
Total	**$ 10,523**	**$ 19,465**

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 2017-2018
Medicaid 2017-2018

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in a decrease in net patient service revenues of approximately $1,163 for the fiscal year ended June 30, 2018 and an increase in net patient service revenues of approximately $9,368 for fiscal year ended June 30, 2017.

THIRD-PARTY SETTLEMENT REVENUE	2018	2017
Medicare pass-through	$ 11,519	$ 11,091
Disproportionate Share Hospital	38,755	36,171
Graduate and Indirect Medical Education	9,682	6,793
Other	353	9,647
Total third-party settlement revenue	**$ 60,309**	**$ 63,702**

15. Fundraising Expenses

For fiscal years ended June 30, 2018 and 2017, Howard incurred expenses of approximately $5,105 and $6,386, respectively, in connection with its fundraising activities. These amounts are reflected on the accompanying consolidated statements of activities within Institutional support.

16. 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 $3,620 and $4,200 for fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017 were $52,759 and $55,434, respectively.

17. 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, 2018 and 2017:

OPERATING EXPENSES (IN THOUSANDS)	2018	2017
Salaries and wages	$ 343,558	$ 333,842
Employee benefits other than retirement plans	59,586	72,857
Retirement plans excluding amortization	5,956	8,301
Total employment expenses	**409,100**	**415,000**
Telecommunications	6,852	9,305
Utilities	24,858	24,446
Medical and office supplies	31,916	29,574
Repairs and maintenance	28,656	25,033
Food service costs	19,693	16,179
Grant subcontracts	15,035	13,053
Insurance and risk management	22,246	27,389
Professional and administrative services	155,756	152,568
Provision for bad debts	5,672	223
Total operating expenses exclusive of interest, depreciation and amortization expense	**719,784**	**712,770**
Interest expense	22,969	21,618
Depreciation and amortization	39,814	50,154
Amortization of retirement plan actuarial losses	9,253	10,260
Total operating expenses	**$ 791,820**	**$ 794,802**

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, 2018, 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.

(amounts in thousands)

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	2018	2017
Malpractice claims expense	$ 6,153	$ 6,081
Malpractice excess insurance	1,430	1,710
Student sickness	11,004	9,727
General and other	3,659	9,871
Totals	**$ 22,246**	**$ 27,389**

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 year 2017, 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. 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, 2018, $0 remains accrued, reflecting $19,816 of cumulative payment activity.

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 cash account as of June 30, 2018.

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.

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, 2018 and 2017 Howard reserved $2,450 and $1,600, respectively for legal contingencies. In the opinion of management and Howard's general counsel, an appropriate monetary provision has been made to account for probable losses upon ultimate resolution of these matters.

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

Howard has several collective bargaining agreements currently in effect with unions representing approximately 1,207 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

(amounts in thousands)

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, 2018 and 2017, Howard has contributed to the Middle School as follows:

RELATED PARTY TRANSACTIONS	2018	2017
Cash operating support	$ 500	$ 1,000
Facility leased (market value)	1,451	1,451
Total	**$ 1,951**	**$ 2,451**

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

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

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

As of fiscal years ending June 30, 2018 and 2017, the consolidated statements of financial position for the LLC are as follows:

HOWARD DIALYSIS CENTER, LLC STATEMENTS OF FINANCIAL POSITION	2018	2017
Total Assets	$ 10,625	$ 11,389
Total Liabilities	$ 925	$ 1,075
Equity		
Partner	5,086	5,586
Retained earning	4,615	4,729
Total Equity	**$ 9,701**	$ 10,315
ARA interest	$ 4,948	$ 5,261
Howard interest	$ 4,753	$ 5,054

(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, 2018.

(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 five year Management Service Agreement (MSA) with Paladin Healthcare, effective October 1, 2014, with an option to extend the agreement for an additional five years. On that date, Paladin Healthcare assumed responsibility for day-to-day operations of the Hospital under the oversight of a joint Howard and Paladin Healthcare Management Committee. 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. In August 2018, this relationship was expanded such that Corvias will manage any and all residence life duties and responsibilities for the University's central office of residence life (inclusive of the Annex).

(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.

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

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

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

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

23. Subsequent Events

(a) ***Steam Plant Repair and Modernization***
In October 2018, Howard entered into a term loan agreement with ENGIE North America Inc. to provide bridge financing for up to $9,700 to cover costs in connection with repairs to the steam distribution tunnel and temporary boiler rental costs incurred for the temporary heating solutions during the 2017-2018 academic year.

In October 2018, Howard entered into a Consulting Services Agreement with ENGIE Development, LLC (EDL). EDL will provide advisory and consulting services related to the design and, in collaboration with Howard, implementation of a temporary heating solution for Howard's main campus for the 2018-2019 school year as part of its Short Term Solution. As part of the agreement, EDL will provide a proposal for the long-term overhaul, modernization and ongoing operation of the steam plant and its related facilities including a financing plan for implementation.

(b) ***Howard Center Project***
Howard owns improved property known as Howard Center. As part of the Howard Center Project ("Project") Howard is dividing a total of thirteen (13) air tracts and tax lots and leasing seven (7) of those tracts of Howard Center.

(1) ***Lease Agreement -*** In November 2018, Howard entered into a 50 year lease with Provident Group-Howard Center, Inc. ("Lessee"). The Lessee will design, develop, construct and furnish approximately 176 dormitory/residential units and associated amenities and improvements on the seven (7) leased tracts, for the use and benefit of the students, faculty, staff and associates of Howard. The Lessee issued $33,175 in revenue bonds through the District of Columbia to finance the Project. In general, revenues and expenses including management fees and rental payments associated with the Project are the responsibility of the Lessee. The bonds will be repaid from revenues generated from the Project. On the effective date of the lease, the Lessee made a one-time initial rent payment that Howard will use to finance a portion of its capital plan with respect to its facilities on the Central Campus.

The Howard Center Project is expected to be completed and available for occupancy in August 2019 in time for Fall 2019 move-in. Howard will retain exclusive ownership of lots described in the lease.

(2) ***Management Agreement -*** In November 2018, Howard and Provident Group-Howard Center, Inc. entered into a management agreement such that the University will manage the day-to-day operation, management, maintenance and repair of the Howard Center Project. Under a submanagement agreement, Howard assigned and delegated its management rights and responsibilities for the Howard Center Project to Corvias Management, LLC.

(c) ***Bond Downgrade***

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

The rating action reflects Howard's placement on Heightened Cash Monitoring 2 (HCM2) status by the U.S. Department of Education (DOE) so that it can closely monitor the institution's federal financial aid management.

Howard performed an evaluation of subsequent events through December 17, 2018, 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, 2018.