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HOWARD

UNIVERSITY

The Howard University

Consolidated Financial Statements

Fiscal Years Ended June 30, 2014, 2013 and 2012

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Interim Chief Financial Officer and Treasurer

Report of the Treasurer on the Consolidated Financial Statements

The management of The Howard University (Howard University) is responsible for the preparation, accuracy, integrity and objectivity of the consolidated 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 management's best estimates and judgments. Actual amounts could differ from those estimates.

These consolidated financial statements have been presented under my supervision. Based upon my knowledge, these consolidated financial statements fairly present, in all material respects, the consolidated financial position, consolidated changes in net assets and consolidated cash flows of 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 respective financial covenants as of June 30, 2014, with the exception of the Debt Service Coverage Ratio for the Multi-bank Credit Agreement as further described in Note 18 of the accompanying consolidated financial statements.



John D. Gordon, Jr. MS, CPA, CGMA
Interim Chief Financial Officer and
Treasurer





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Independent Auditor's Report

Board of Trustees
The Howard University
Washington, DC

We have audited the accompanying financial statements of The Howard University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Howard University as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The June 30, 2012 financial statements of the University were audited by other auditors, whose report dated October 29, 2012 expressed an unmodified opinion on those statements.

BDO USA, LLP

December 23, 2014

Consolidated Statements of Financial Position As of June 30, 2014, 2013 and 2012 (in thousands)	June 30, 2014	June 30, 2013	June 30, 2012
Assets:			
Cash and cash equivalents	\$ 14,820	\$ 34,795	\$ 35,146
Operating investments	40,095	36,185	34,425
Deposits with trustees	13,853	17,625	38,150
Receivables, net	126,733	137,830	118,024
Inventories, prepaids and other assets	29,205	29,974	23,739
Unexpended bond proceeds	46,325	71,670	87,207
Restricted investments	44,240	37,754	32,402
Endowment investments	591,902	514,073	460,712
Property, plant and equipment, net	625,602	613,081	608,441
Total assets	\$ 1,532,775	\$ 1,492,987	\$ 1,438,246
Liabilities:			
Accounts payable and accrued expenses	\$ 122,955	\$ 108,077	\$ 115,127
Deferred revenue	10,000	9,691	9,938
Other liabilities	30,175	34,568	33,305
Accrued post retirement benefits	71,302	67,852	189,430
Underfunded defined benefit pension plan	106,629	127,455	168,208
Reserves for self-insured liabilities	86,631	90,399	80,595
Notes payable	70,447	46,499	38,569
Capital lease obligations	44,125	47,355	43,431
Bonds payable	293,194	293,496	293,785
Interest rate swap	-	-	21
Refundable advances under Federal Student Loan Program	6,369	6,484	6,852
Total liabilities	841,827	831,876	979,261
Net Assets:			
Unrestricted	308,222	315,051	143,977
Temporarily restricted	256,783	222,850	200,463
Permanently restricted	125,943	123,210	114,545
Total net assets	690,948	661,111	458,985
Total liabilities and net assets	\$ 1,532,775	\$ 1,492,987	\$ 1,438,246

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

Consolidated Statements of Activities For fiscal years ended June 30, 2014, 2013 and 2012 (in thousands)	June 30, 2014	June 30, 2013	June 30, 2012
Academic services:			
Tuition and fees, net	\$ 164,722	\$ 160,429	\$ 147,537
Grants and contracts	57,048	58,284	59,766
Auxiliary services	64,937	62,174	60,109
Clinical services:			
Patient service - Hospital	209,752	241,136	265,714
Patient service - Faculty medical practice	33,802	32,441	31,871
Patient service - Dental clinic	2,202	1,864	1,970
Public support:			
Federal appropriation	219,346	230,239	230,567
Contributions	3,601	3,805	3,924
Endowment transfer	6,080	5,866	5,985
Operating investment income	7,053	4,639	211
Net assets released from restrictions	17,060	15,417	14,606
Other income	15,150	20,359	27,819
Total unrestricted operating revenue	800,753	836,653	850,079
Federal appropriation	3,405	3,452	3,593
Contributions	7,535	4,077	5,111
Endowment transfer	6,614	6,265	6,404
Net assets released from restrictions	(17,060)	(15,417)	(14,606)
Other	519	705	519
Total temporarily restricted operating revenue	1,013	(918)	1,021
Contributions	1,162	5,770	1,076
Endowment transfer	402	382	390
Other	790	83	(584)
Total permanently restricted operating revenue	2,354	6,235	882
Total operating revenues	804,120	841,970	851,982
Salaries and wages	385,707	374,843	383,764
Employee benefits other than retirement plans	73,981	72,657	73,237
Retirement plans excluding amortization	15,366	20,004	32,783
Total employment expenses	475,054	467,504	489,784
Telecommunications	10,772	9,208	8,921
Utilities	21,589	21,982	21,449
Medical and office supplies	39,889	44,411	45,523
Repairs and maintenance	21,763	20,108	18,321
Food service costs	13,495	11,550	11,988
Grant subcontracts	19,752	16,456	15,262
Insurance and risk management	27,473	31,089	19,722
Professional and administrative services	125,413	119,431	120,737
Provision for bad debts	5,939	5,268	5,479
Total operating expenses exclusive of interest, depreciation and amortization expense	761,139	747,007	757,186
Interest expense	23,025	22,985	24,500
Depreciation	55,900	52,625	50,453
Amortization of retirement plan actuarial losses	8,672	9,838	10,120
Total operating expenses	848,736	832,455	842,259
Operating revenues (under) over operating expenses	(44,616)	9,515	9,723
Investment income/(loss) in excess of amount designated for operations	40,307	20,004	(6,810)
Restructuring costs	(3,433)	(1,808)	(24,462)
Change in funded status of defined benefit pension plan	19,283	27,689	(119,274)
Change in obligation for post-retirement benefit plan	(15,003)	121,101	2,731
Change in value of interest rate swap, net	-	21	83
Other items, net	-	(131)	(270)
Total unrestricted non-operating income and expenses	41,154	166,876	(148,002)
Total temporarily restricted non-operating income and expenses, net	32,920	23,305	(9,603)
Total permanently restricted non-operating income and expenses, net	379	2,430	(1,035)
Total non-operating income and expenses	74,453	192,611	(158,640)
Unrestricted	(6,829)	171,074	(140,182)
Temporarily restricted	33,933	22,387	(8,582)
Permanently restricted	2,733	8,665	(153)
Change in net assets	\$ 29,837	\$ 202,126	\$ (148,917)

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

Consolidated Statements of Cash Flows For the fiscal years ended June 30, 2014, 2013 and 2012 (in thousands)	June 30, 2014	June 30, 2013	June 30, 2012
Cash flows from operating activities			
Change in net assets	\$ 29,837	\$ 202,126	\$ (148,917)
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:			
Non-operating activities	(74,453)	(192,611)	158,640
Non-cash operating items:			
Depreciation	55,900	52,625	50,453
Retirement plan amortization	8,672	9,838	10,120
Non-cash joint venture gain	-	-	(4,466)
Investment appreciation	(7,053)	(4,639)	(211)
Change in net assets adjusted for non-cash and non-operating items	12,903	139,427	140,477
Change in receivables (excluding notes)	13,561	(18,735)	(6,658)
Change in inventory, prepaid expenses and other assets	769	(6,235)	(4,607)
Change in deposits with trustees	3,772	20,525	10,471
Change in accounts payable and other accrued expenses	(6,888)	(36,135)	(39,620)
Change in deferred revenue	309	(247)	1,484
Change in reserve for self-insured liabilities	(3,768)	9,804	796
Change in other liabilities	(4,393)	1,263	1,103
Change in refundable advances under Federal Student Loan Program	(115)	(368)	(491)
Net cash and cash equivalents provided by operating activities	3,247	37,211	28,097
Cash flows from investing activities			
Proceeds from sale of investments	373,782	388,245	208,951
Purchase of investments	(381,682)	(390,005)	(198,182)
Change in unexpended bond proceeds	25,345	15,537	15,222
Purchases and renovations of property, plant and equipment	(65,560)	(55,720)	(49,363)
Net cash and cash equivalents used in investing activities	(48,115)	(41,943)	(23,372)
Cash flows from financing activities			
Proceeds from notes payable	100,000	70,000	110,000
Payment on notes payable	(76,052)	(62,070)	(102,201)
Payment on bonds payable	(508)	(515)	(489)
Capital leases (payments) receipts, net	(10,148)	(7,734)	(4,818)
Student loans issued	(3,821)	(2,537)	(1,918)
Student loans collected	1,357	1,467	1,491
Proceeds from restricted contributions	1,162	5,770	1,076
Net cash and cash equivalents provided by financing activities	11,990	4,381	3,141
Net (decrease) increase in cash and cash equivalents	(19,975)	(351)	7,866
Cash and cash equivalents at beginning of year	34,795	35,146	27,280
Cash and cash equivalents at end of year	\$ 14,820	\$ 34,795	\$ 35,146
Supplemental cash flow information			
Cash paid for interest	23,111	23,978	23,469
Supplemental non-cash investing activities:			
Acquisition of equipment under capital leases	6,918	11,658	4,702
Supplemental non-cash financing activities:			
Donated securities	2,254	73	30

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

Note 1 **Summary of Significant Accounting Policies**

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

Howard 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, 2014, 2013 and 2012, Howard had no deferred tax assets or liabilities. In addition, Howard analyzed its tax positions for the years ended June 30, 2014, 2013 and 2012, 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 activities with accounting principles generally accepted in the United States of America. (U.S. GAAP).

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

The preparation of the 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 consolidated 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 asset retirement obligations.

(d) ***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 that donor-imposed stipulations.

Temporarily restricted – Net assets subject to donor-imposed stipulations that either expire by the passage of time or that 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 Howard 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.

(e) **Receivables and Revenue Recognition**

- (1) **Contributions**, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the gift date. Howard has elected not to recognize or capitalize contributions of works of art, historical treasures, and similar assets held as part of collections. Contribution revenue for the fiscal years ended June 30, 2014, 2013 and 2012 are shown below:

Contribution Revenue	June 30, 2014	June 30, 2013	June 30, 2012
Unrestricted	\$ 3,601	\$ 3,805	\$ 3,924
Temporarily restricted	7,535	4,077	5,111
Permanently restricted	1,162	5,770	1,076
Total contribution revenue	\$ 12,298	\$ 13,652	\$ 10,111

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

- (2) **Tuition and fees** from student services are recognized ratably over the academic time period to which they apply. A portion of tuition and fees charged in the current fiscal year for the summer term are recognized in the following fiscal year due to summer sessions between May and July crossing fiscal years.

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, 2014, 2013 and 2012 was \$92,923, \$87,849 and \$86,390, respectively.

Net Tuition Revenue	June 30, 2014	June 30, 2013	June 30, 2012
Gross tuition and fees	\$ 257,645	\$ 248,278	\$ 233,927
Financial aid:			
Merit	53,373	50,070	46,709
Need	16,683	14,933	14,081
Talent	7,183	7,082	6,518
Other	15,684	15,764	19,082
Total financial aid	\$ 92,923	\$ 87,849	\$ 86,390
Total net tuition	\$ 164,722	\$ 160,429	\$ 147,537

- (3) **Other income** represents income from activities other than core business operations and is recognized as revenue in the period it is received.
- (4) **Federal appropriation** revenue is recognized when received and expended. Howard receives a Federal appropriation that can be used for support of the University's educational mission, a portion of which is held as a temporarily restricted term endowment. For fiscal years ended June 30, 2014, 2013 and 2012, Howard received 28%, 28% and 27%, respectively, of its revenue support from the Federal appropriation. The \$3,405, \$3,452 and \$3,593, receivable as of June 30, 2014, 2013 and 2012, respectively, represents the portion to be collected on the Federal term endowment as defined in Note 13.
- (5) **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 amounts due for patient care services rendered by the University's Faculty Practice Plan (FPP) and the Hospital.

Net Patient Service Revenue	June 30, 2014	June 30, 2013	June 30, 2012
Gross Revenues	\$ 725,111	\$ 704,912	\$ 722,582
Third-party settlement revenue	49,952	54,559	43,315
Contractual allowances and adjustments	(494,137)	(420,442)	(384,762)
Charity services	(8,241)	(35,986)	(52,800)
Bad debt	(26,929)	(27,602)	(28,780)
Total net patient service revenue	\$ 245,756	\$ 275,441	\$ 299,555
% of contractals and charity services of gross revenues	69%	65%	61%

- (6) **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 amounts due from Federal, state, local, private grants, contracts and others.

Grants and contracts revenue	June 30, 2014	June 30, 2013	June 30, 2012
Reimbursement of direct expenses	\$ 49,651	\$ 50,318	\$ 51,421
Recovery of indirect costs	7,397	7,966	8,345
Total grants and contracts revenue	\$ 57,048	\$ 58,284	\$ 59,766
Indirect costs recovery as a % of direct costs	15%	16%	16%

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

Grants and contracts revenue by type	June 30, 2014	June 30, 2013	June 30, 2012
Research	\$ 32,119	\$ 31,036	\$ 34,083
Training	13,873	14,732	15,801
Service/other	11,056	12,516	9,882
Total grants and contracts revenue by type	\$ 57,048	\$ 58,284	\$ 59,766

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

Auxiliary services revenue	June 30, 2014	June 30, 2013	June 30, 2012
Student housing	\$ 32,370	\$ 29,517	\$ 28,616
Radio station	12,851	13,664	11,880
Meal plans	10,321	8,748	8,630
Bookstore	5,094	6,309	7,026
Property rentals	1,505	1,384	1,175
Parking fees	775	807	878
Vending sales and fees	678	691	837
Ticket sales	793	511	484
Licensing	11	148	14
Other	539	395	569
Total auxiliary services revenue	\$ 64,937	\$ 62,174	\$ 60,109

- (8) **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. A reasonable estimate of the fair value of the loans receivable advances from the Federal Government under the Federal Student Loan Program could not be made because the loan receivables are not stable and can only be assigned to the U.S. Government or its designees. 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 generally guaranteed.

(f) ***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 repurchase agreements, certificates of deposit, short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at approximate fair value. Howard's practice is to enter into repurchase agreements only when collateralized by government or other agency securities held in safekeeping by a bank. These transactions are recorded on the consolidated statements of financial position, with any earnings recorded as interest income. Howard's repurchase arrangement was suspended in August 2011.

(g) ***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.

Deposits with Trustees – represent short-term investments in various operating trusts, designed to meet certain obligations including professional liability, workers' compensation, health insurance, capitalized interest and the debt service reserve funds. Investment balances may include some cash and cash equivalents held by investment managers for a specific purpose.

Temporarily and permanently restricted non-operating income and expense, net on the consolidated statements of activities primarily relates to investment income (loss) in excess of amounts designated for operations. Fair values of the University's investments are determined by the most relevant available and observable valuation inputs as defined in Note 12. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based upon average historical value (cost of securities purchased or the fair market value at date of gift, if received by donation). Dividend and interest income are recorded on an accrual basis. Accrued but unpaid dividends, interest and proceeds from investment sales at the report date are recorded as investment receivables.

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

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

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

Inventories consist primarily of bookstore items and medical supplies, and are recorded at the lower of cost or realizable value on a first-in, first-out basis. Prepaids consist primarily of insurance, dues, subscriptions and other fees and are amortized over the useful period. Other assets consist primarily of unamortized

bond issuance costs, deferred health charges, intellectual property and investment interest in a dialysis joint venture, see Note 21.

(i) ***Property, Plant and Equipment***

Property, plant and equipment are stated at cost or at estimated 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. A half year of depreciation is recorded in the year of acquisition. The useful lives for fiscal years reported are as follow:

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

Property, plant and equipment acquired under capital leases are amortized in a manner consistent with Howard's normal depreciation policy for owned assets. Lease obligations are amortized using the straight-line method, over the shorter period of the lease term or the estimated useful life.

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

Property held for expansion consists 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.

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

(j) ***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.

(k) ***Functional Expenses***

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.

For fiscal years ended June 30, 2014, 2013 and 2012, expenses were allocated across functions as follows:

Functional expenses	June 30, 2014	June 30, 2013	June 30, 2012
Program services:			
Instruction	\$ 215,022	\$ 205,891	\$ 214,254
Research	35,609	35,285	40,068
Public service	10,492	8,189	9,943
Academic support	47,173	40,589	38,625
Student services	27,754	27,154	26,872
Patient care	299,372	302,772	297,194
Total program services expenses	\$ 635,422	\$ 619,880	\$ 626,956
Supporting services:			
Institutional support	144,070	139,427	140,477
Auxiliary enterprises	69,244	73,148	74,826
Total supporting services	\$ 213,314	\$ 212,575	\$ 215,303
Total program and supporting services expenses	\$ 848,736	\$ 832,455	\$ 842,259

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.

(m) ***Other Liabilities***

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

(n) ***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 June 30, 2014, 2013 and 2012 the obligation was \$7,421, \$6,920 and \$11,172, respectively.

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

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

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

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

(q) ***Non-operating Restricted Income and Expense***

The table below details the items of non-operating restricted income and expense summarized in the consolidated statements of activities for the fiscal years ended June 30, 2014, 2013 and 2012:

Non-operating restricted income and expense	June 30, 2014	June 30, 2013	June 30, 2012
Investment income (loss) in excess of amount designated for operations	\$ 33,289	\$ 25,462	\$ (9,591)
Other items, net	(369)	(2,157)	(12)
Temporarily restricted non-operating income (expense)	\$ 32,920	\$ 23,305	\$ (9,603)
Investment income (loss) in excess of amount designated for operations	193	146	(1,230)
Other items, net	186	2,284	195
Permanently restricted non-operating income (expense)	\$ 379	\$ 2,430	\$ (1,035)

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

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Howard is currently evaluating the impact of adoption of ASU 2014-09 on Howard's consolidated financial statements, but does not expect the impact to be material.

(s) ***Reclassification***

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

Note 2 Fundraising Expenses

For fiscal years ended June 30, 2014, 2013 and 2012, Howard incurred expenses of approximately \$4,803, \$6,278 and \$6,276, respectively, in connection with its fundraising activities. These amounts are reflected on the accompanying consolidated statements of activities within each respective expense category, as appropriate.

Note 3 Charity Care

The Hospital provides services to patients who meet the criteria of its charity care policy, without charge, or at amounts less than established rates. The criteria for charity services are comprised of family income, net worth and eligibility at time of application. In addition the Hospital provides services to patients under the District of Columbia charity care program, DC Alliance. The total of charges forgone for services furnished under the Hospital's charity care policy and the DC Alliance program were \$8,241, \$35,986 and \$52,800 for fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Total uncompensated care charges under all of Howard's clinical services which includes bad debt write offs as well as charity care, for fiscal years ended June 30, 2014, 2013 and 2012 were \$35,170, \$63,588 and \$81,580, respectively.

Note 4 Insurance and Risk Management

Howard, along with 16 other institutions of higher education, is a subscriber in Pinnacle Consortium of Higher Education, a Vermont Reciprocal Risk Retention Group. Pinnacle provides commercial general and certain specific liability coverage. Howard's annual payments to Pinnacle for insurance coverage are based on actuarial studies and are charged to expense. Pinnacle reinsures 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 reinsures general liability and automobile liability risks of its shareholders. At June 30, 2014, Howard had an approximate 6% interest of Genesis and Pinnacle, respectively. Howard's interest in Genesis and Pinnacle is included in restricted investments. Liability insurance coverage in excess of the primary coverage has been purchased by Howard, with limits of \$125,000 from commercial insurance companies.

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

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

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

Insurance and Risk Management	June 30, 2014	June 30, 2013	June 30, 2012
Malpractice claims expense	\$ 14,705	\$ 16,636	\$ 7,479
Malpractice excess insurance	1,590	1,640	1,837
Student sickness	6,771	6,646	4,902
General and other	4,407	6,167	5,504
Totals	\$ 27,473	\$ 31,089	\$ 19,722

Note 5 Restructuring Costs

Restructuring costs represent non-recurring expenses required to facilitate management, faculty and staff changes resulting from Howard's various renewal initiatives. In fiscal years 2014, 2013 and 2012, 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 \$3,433, \$1,808 and \$4,646, for the fiscal years ended June 30, 2014, 2013 and 2012, respectively. Additionally, Howard implemented a Faculty Phased Retirement Program with incentive payments of \$19,816 payable between September 2012 and September 2017, which was accrued as of June 30, 2012. As of June 30, 2014, \$6,118 is accrued, reflecting \$13,698 of cumulative payment activity.

Note 6 Concentration of Credit Risk

Financial instruments that potentially subject Howard to significant concentrations of credit risk consist principally of deposits of cash, cash equivalents, and investments in financial institutions in excess of the applicable government insurance limits. The limit was \$250 per account as of June 30, 2014. Concentrations of credit risk with respect to receivables pertain mainly to self-pay patients of Howard's clinical services, and to students.

Note 7 Receivables

Accounts receivable, prior to adjustment for doubtful collections, is summarized as follows at June 30, 2014, 2013 and 2012:

Receivables	June 30, 2014	June 30, 2013	June 30, 2012
Student	\$ 20,151	\$ 15,331	\$ 11,663
Notes	15,024	12,561	11,490
Federal appropriation	4,290	3,452	3,623
Patients and third-party payors - Hospital	88,326	103,544	83,011
Patients and third-party payors - FPP	16,611	12,171	10,271
Patients and third-party payors - Dental	1,851	1,629	2,186
Grants and contracts	17,343	16,739	18,956
Contributions	4,566	3,364	3,388
Insurance claims	14,057	16,896	16,254
Auxiliary services	6,176	4,300	2,892
Other	3,532	2,967	9,714
Total	\$ 191,927	\$ 192,954	\$ 173,448

Allowance for doubtful receivables is summarized as follows at June 30, 2014, 2013 and 2012:

Allowance for Doubtful Receivables	June 30, 2014	June 30, 2013	June 30, 2012
Student	\$ 10,444	\$ 7,396	\$ 6,760
Notes	3,210	3,210	3,287
Patients and third-party payors - Hospital	38,943	32,300	31,984
Patients and third-party payors - FPP	4,349	3,041	4,178
Patients and third-party payors - Dental	571	709	996
Grants and contracts	4,505	3,788	3,918
Contributions	1,623	1,738	1,599
Insurance claims	1,326	1,488	1,615
Auxiliary services	109	235	266
Other	114	1,219	821
Totals	\$ 65,194	\$ 55,124	\$ 55,424
Total receivables, net	\$ 126,733	\$ 137,830	\$ 118,024

Provision for bad debt is summarized as follows at June 30, 2014, 2013 and 2012:

Provision for Bad Debt	June 30, 2014	June 30, 2013	June 30, 2012
<i>Non-clinical services:</i>			
Student services	\$ 5,011	\$ 3,266	\$ 5,461
Research grants and development Agreements	717	210	-
Insurance claims	(162)	(127)	(985)
Auxiliary services	234	321	347
Uncollectible pledges	266	89	29
Other	(127)	1,509	627
Total non-clinical services	\$ 5,939	\$ 5,268	\$ 5,479
<i>Clinical services:</i>			
Patients and third-party payors - Hospital	20,057	20,754	20,677
Patients and third-party payors - FPP	6,755	6,777	7,590
Patients and third-party payors - Dental	117	71	513
Total clinical services	\$ 26,929	\$ 27,602	\$ 28,780
Total provision for bad debt	\$ 32,868	\$ 34,872	\$ 34,276

Bad debt expense of \$5,939, \$5,268 and 5,479 for fiscal years ended June 30, 2014, 2013 and 2012, respectively, reflected in total operating expenses on the consolidated statements of activities excludes bad debt expense related to certain clinical services determined to be uncollectible. Clinical services bad debt expense, as shown in the table above, has been netted against patient service revenues.

Contributions receivable at June 30, 2014, 2013 and 2012 are expected to be received as follows:

Contributions Receivable	June 30, 2014	June 30, 2013	June 30, 2012
Within one year	\$ 4,314	\$ 2,969	\$ 2,725
Between one and five years	274	433	725
Thereafter	4	-	13
Contributions receivable gross	4,592	3,402	3,463
Unamortized discount on contributions receivable (2%-6.5%)	(26)	(38)	(75)
Contributions receivable, net of discounts	4,566	3,364	3,388
Allowance for uncollectible contributions	(1,623)	(1,738)	(1,599)
Contributions receivable, net of discounts and allowance	\$ 2,943	\$ 1,626	\$ 1,789

Note 8 Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts at June 30, 2014, 2013 and 2012 are as follows:

Inventories, Prepaids and Other Assets	June 30, 2014	June 30, 2013	June 30, 2012
Inventories - Bookstore	\$ -	\$ 1,076	\$ 1,056
Inventories - Hospital	4,679	5,912	5,194
Prepaid expenses	6,154	5,683	5,463
Unamortized bond issuance costs	4,778	4,993	5,207
Deferred health charges	1,414	1,621	1,588
Dialysis joint venture interest	5,337	4,800	4,436
Beneficial interest trust	4,968	4,423	-
Intellectual property costs	1,682	1,163	617
Other	193	303	178
Total	\$ 29,205	\$ 29,974	\$ 23,739

Note 9 Accounts Payable and Accrued Expenses

Components of this liability account at June 30, 2014, 2013 and 2012 are as follows:

Accounts Payable and Accrued Expenses	June 30, 2014	June 30, 2013	June 30, 2012
Vendor invoices	\$ 73,739	\$ 58,769	\$ 46,189
Accrued salaries and wages	21,930	21,440	23,908
Accrued employee benefits	7,194	6,372	8,489
Accrued annual leave	7,421	6,920	11,172
Accrued faculty retirement incentive payments	6,118	9,125	19,816
Accrued interest	4,822	4,908	4,997
Other	1,731	543	556
Total	\$ 122,955	\$ 108,077	\$ 115,127

Note 10 Other Liabilities and Deferred Revenue

These obligations include the following at June 30, 2014, 2013 and 2012:

Other liabilities	June 30, 2014	June 30, 2013	June 30, 2012
Asset retirement obligation	\$ 13,128	\$ 12,687	\$ 12,247
Environmental remediation	3,000	3,000	3,000
Unclaimed property	2,879	2,588	2,582
Student deposits and refunds	2,725	4,974	5,051
Reserve for legal contingencies	3,664	6,690	7,119
Deposits held in custody for others	2,425	2,260	706
Other	2,354	2,369	2,600
Total	\$ 30,175	\$ 34,568	\$ 33,305

Deferred revenue	June 30, 2014	June 30, 2013	June 30, 2012
Deferred tuition, room and board	\$ 2,825	\$ 3,159	\$ 2,864
Deferred grant revenue	6,677	5,924	6,410
Other	498	608	664
Total	\$ 10,000	\$ 9,691	\$ 9,938

Howard's assets retirement costs and obligations have been discounted using a rate of 4.9%. Amounts for the fiscal years ended were as follows:

Asset Retirement Costs and Obligations	June 30, 2014	June 30, 2013	June 30, 2012
Asset retirement costs	\$ 4,565	\$ 4,565	\$ 4,565
Accumulated depreciation	2,205	2,147	2,091
Accretion Expense	410	412	414
Asset retirement obligation	13,218	12,687	12,247

Howard incurred costs related to asbestos abatement during fiscal years ended June 30, 2014, 2013 and 2012 of \$135, \$87 and \$356, respectively.

Note 11 Deposits with Trustees and Self-insured Liabilities

	Dedicated Assets			Liability		
	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2014	June 30, 2013	June 30, 2012
Debt service reserve	\$ 12,880	\$ 12,880	\$ 12,878	NA	NA	NA
Capitalized interest	-	3,737	12,061	NA	NA	NA
Professional liability	5	239	6,520	\$ 54,365	\$ 55,204	\$ 42,863
Workers' compensation	12	14	3,292	27,956	30,306	32,799
Health insurance trust	956	755	3,399	4,310	4,889	4,933
Total	\$ 13,853	\$ 17,625	\$ 38,150	\$ 86,631	\$ 90,399	\$ 80,595

NA = Not applicable

(a) Debt Service Reserve Fund

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

(b) Capitalized Interest Fund

As required by the 2011 Revenue Bonds, Howard established a capitalized interest fund of \$19,782 for the fiscal year ended June 30, 2011. These funds are intended to satisfy bond interest payments through June 30, 2014. As of June 30,

2014, the capitalized interest fund balance is \$0, reflecting interest payments of \$19,782 from the fund cumulatively.

(c) ***Professional Liability***

Howard is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and certain faculty physicians and are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2014. 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, 2014, 2013 and 2012 of approximately \$54,365, \$55,204 and \$42,863, respectively is adequate to provide for losses resulting from probable unasserted claims and pending or threatened litigation.

Professional liability activity is summarized as follows for fiscal years ended June 30, 2014, 2013 and 2012 in the table below.

Professional Liability	June 30, 2014	June 30, 2013	June 30, 2012
Beginning balance	\$ 55,204	\$ 42,863	\$ 43,141
Malpractice claims expense	14,705	16,636	7,479
Settlement payments	(15,544)	(4,295)	(7,757)
Ending balance	\$ 54,365	\$ 55,204	\$ 42,863

(d) ***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, 2014, workers' compensation liabilities are being satisfied as claims arise. Howard also maintains \$8,360 in letters of credit, which serve as collateral for specific insurance carriers. These letters of credit are secured by Howard's principal lending bank. 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, 2014, 2013 and 2012 expenses related to workers' compensation were \$3,234, \$2,433 and \$3,372, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately \$27,956, \$30,306 and \$32,799 at June 30, 2014, 2013 and 2012, 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 \$12,731, \$15,408 and \$14,639 at June 30, 2014, 2013 and 2012, respectively, net of allowances for uncollectible amounts and are reflected in other receivables.

(e) ***Health Insurance***

Prior to July 1, 2012, Howard established a revocable self-insured trust fund for the purpose of partially funding group health benefits for its employees. The assets consisted primarily of investments in money market funds. As of June 30, 2014, health insurance claims are being funded as incurred. Deposits to the fund are amounts withheld from employees' salaries and wages and Howard's contributions based on estimates established by the claims administrator. Disbursements from the fund are made in accordance with the payment plan established with the claims administrator. The total estimated liability for asserted and unasserted probable claims at June 30, 2014, 2013 and 2012, is approximately \$4,310, \$4,889 and \$4,933, respectively.

Note 12 **Fair Value Measurements**

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

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

Howard's financial assets and liabilities as of June 30, 2014, 2013 and 2012 are subject to fair value accounting.

The Howard University
Notes to the Consolidated Financial Statements
For Fiscal Years Ended June 30, 2014, 2013 and 2012 (amounts in thousands)

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

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

The Howard University
Notes to the Consolidated Financial Statements
For Fiscal Years Ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Fair value as of June 30, 2013 is as follows:

Fair Value as of June 30, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Unexpended bond proceeds (6)	\$ -	\$ 71,670	\$ -	\$ 71,670
Deposits with trustees (7)	770	16,855	-	17,625
Other assets (8)	-	-	4,378	4,378
Total Asset (non investment)	\$ 770	\$ 88,525	\$ 4,378	\$ 93,673
Operating investments				
Fixed Income-Government Bonds (2)	\$ 6,877	\$ -	\$ -	\$ 6,877
Common Stock (3)	28,217	-	-	28,217
Total operating investments	\$ 35,094	\$ -	\$ -	\$ 35,094
Restricted investments				
Money Market Instrument (1)	\$ -	\$ 1,089	\$ -	\$ 1,089
Common Stock (3)	34,074	-	-	34,074
Private Equity (4)	-	-	2,341	2,341
Real Estate (4)	-	-	250	250
Total restricted investments	\$ 34,074	\$ 1,089	\$ 2,591	\$ 37,754
Endowment Investments				
Money Market Instrument (1)	\$ 704	\$ 27,644	\$ -	\$ 28,348
Commingled Funds				
Global Fixed Income (2)	-	30,200	-	30,200
International Equity (3)	-	53,378	-	53,378
US Common Stock (3)	-	17,788	-	17,788
Commodity Inflation Hedging (4)	-	17,357	-	17,357
Common Stock (3)	50,741	-	-	50,741
Fixed Income (2)				
Asset backed	-	2,054	-	2,054
Corporate Bonds	-	4,804	-	4,804
Hedge Funds (4)				
Distressed Debt	-	2,793	-	2,793
Equity Long/Short	-	4,866	-	4,866
Event Driven	-	3,123	3,562	6,685
Global Opportunities	-	4,399	-	4,399
Multi-strategy	-	26,802	2,369	29,171
Mutual Funds Investment				
Emerging Market Equity (3)	51,892	-	-	51,892
Domestic Common Stock (3)	20,320	-	-	20,320
Domestic Fixed Income (2)	54,883	-	-	54,883
International Equity Security (3)	32,114	-	-	32,114
Private Equity and Venture Capital (4)	-	-	93,565	93,565
Real Estate (4)	-	-	8,715	8,715
Total endowment investments	\$ 210,654	\$ 195,208	\$ 108,211	\$ 514,073
Total investments	\$ 279,822	\$ 196,297	\$ 110,802	\$ 586,921
Assets not subject to fair value reporting	\$ 1,368	\$ -	\$ -	\$ 1,368
Liabilities not subject to fair value reporting	(277)	-	-	(277)
Total assets and liabilities measured at fair value	\$ 280,913	\$ 196,297	\$ 110,802	\$ 588,012

Fair value as of June 30, 2012 is as follows:

Fair Value as of June 30, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Unexpended bond proceeds (6)	\$ -	\$ 87,207	\$ -	\$ 87,207
Deposits with trustees (7)	4,701	33,449	-	38,150
Total Asset (non investment)	\$ 4,701	\$ 120,656	\$ -	\$ 125,357
Operating investments				
Fixed Income-Government Bonds (2)	\$ 5,925	\$ -	\$ -	\$ 5,925
Common Stock (3)	28,500	-	-	28,500
Total operating investments	\$ 34,425	\$ -	\$ -	\$ 34,425
Restricted investments				
Money Market Instrument (1)	\$ -	\$ 670	\$ -	\$ 670
Common Stock (3)	29,075	-	-	29,075
Private Equity (4)	-	-	2,407	2,407
Real Estate (4)	-	-	250	250
Total restricted investments	\$ 29,075	\$ 670	\$ 2,657	\$ 32,402
Endowment Investments				
Money Market Instrument (1)	\$ 911	\$ 39,097	\$ -	\$ 40,008
Commingled Funds				
Global Fixed Income (2)	-	28,870	-	28,870
International Equity (3)	-	38,165	-	38,165
US Common Stock (3)	-	15,190	-	15,190
Commodity Inflation Hedging (4)	-	15,172	-	15,172
Common Stock (3)	62,946	-	-	62,946
Fixed Income (2)				
Asset backed	-	2,662	-	2,662
Corporate Bonds	-	5,765	-	5,765
Hedge Funds (4)				
Distressed Debt	-	2,298	-	2,298
Equity Long/Short	-	4,488	-	4,488
Event Driven	-	2,353	3,261	5,614
Global Opportunities	-	3,950	-	3,950
Multi-strategy	-	24,610	2,260	26,870
Mutual Funds Investment				
Emerging Market Equity (3)	28,165	-	-	28,165
Domestic Common Stock (3)	16,513	-	-	16,513
Domestic Fixed Income (2)	61,898	-	-	61,898
Private Equity and Venture Capital (4)	-	-	93,138	93,138
Real Estate (4)	-	-	9,000	9,000
Total endowment investments	\$ 170,433	\$ 182,620	\$ 107,659	\$ 460,712
Liabilities:				
Interest rate swap (5)	\$ -	\$ 21	\$ -	\$ 21
Total assets and liabilities measured at fair value	\$ 238,634	\$ 303,946	\$ 110,316	\$ 652,896

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 an accounting standard update governing the classification of certain investments which provide the option of Net Asset Value redemption value as Level 2, Howard has classified qualifying investments in Hedge Funds and Commodity Funds as Level 2. These investments can be redeemed on a quarterly basis with a 30 to 90 days redemption notice period. Hedge Funds and Commodity Funds with liquidation terms in excess of 90 days are classified as Level 3. Limited partnerships including private equity and real estate funds and other non-redeemable funds are categorized as Level 3.

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

- (5) Interest rate swaps are valued using observable and unobservable inputs, such as quotations received from counterparty dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of the observed inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, pre-payment rates, assumptions for non-performance risk, and correlations of such inputs. Certain parts of the interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore, classified as Level 2 within the fair value hierarchy.
- (6) Unexpended bond proceeds include investments in government debt security funds. These funds are not quoted daily and are valued at amortized cost. These investments are classified as Level 2.
- (7) Deposits held with trustees, including workers' compensation, professional and general liability, health insurance and bond debt service deposits, are comprised primarily of money market instruments, US treasury securities, mortgage-backed securities and corporate bonds. Money market investments are classified as either Level 1 or Level 2 based on whether their prices are quoted daily. Investments in US treasury securities are classified as Level 1 and other fixed income securities are classified as Level 2.
- (8) Other assets represent the University's beneficial interest in certain trust assets held by third parties. The fair value of this interest has been measured using the income approach as there is no active principal market trading in this interest. This interest was valued using the quoted market value for the underlying marketable securities of the Trust discounted for expected future cash flows to the University. These interests are classified as Level 3 assets as the reported fair values are based on a combination of observable and unobservable inputs.

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 fiscal year ended June 30, 2014 is as follows:

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

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

Changes in Level 3 securities for the period ended June 30, 2013 is as follows:

Changes in Level 3 for the year ended June 30, 2013	Private Equity and Venture Capital	Hedge Funds	Real Estate	Other Assets	Total
Balance July 1, 2012	\$ 95,545	\$ 5,521	\$ 9,250	\$ -	\$ 110,316
Gain and Loss (Realized and unrealized)	13,180	703	808	(44)	14,647
Acquisitions	9,047	-	-	4,422	13,469
Sales	(21,866)	(293)	(1,093)	-	(23,252)
Balance June 30, 2013	\$ 95,906	\$ 5,931	\$ 8,965	\$ 4,378	\$ 115,180
Change in unrealized investments held	\$ 5,783	\$ 703	\$ 906	\$ (44)	\$ 7,348

There were no transfers into or out of Level 3 during fiscal year ended June 30, 2013.

Changes in Level 3 securities for the fiscal year ended June 30, 2012 is as follows:

Changes in Level 3 for the year ended June 30, 2012	Private Equity and Venture Capital	Hedge Funds	Real Estate	Total
Balance July 1, 2011	\$ 88,420	\$ 5,195	\$ 8,890	\$ 102,505
Gain and Loss (Realized and unrealized)	4,424	33	610	5,067
Purchases	14,260	-	136	14,396
Transfers	-	293	-	293
Sales	(11,559)	-	(386)	(11,945)
Balance June 30, 2012	\$ 95,545	\$ 5,521	\$ 9,250	\$ 110,316
Change in unrealized investments held	\$ 424	\$ 33	\$ 573	\$ 1,030

There were \$293 of transfers into Level 3 during fiscal year ended June 30, 2012.

Net investment income (loss) is summarized as follows for fiscal years ended June 30, 2014, 2013 and 2012:

Net Investment Income (Loss)	June 30, 2014	June 30, 2013	June 30, 2012
Interest and dividends	\$ 13,810	\$ 12,553	\$ 7,870
Net realized gains (losses)	39,553	28,165	3,838
Net unrealized gains (losses)	37,855	26,329	(15,862)
Other investment income (expenses)	320	(270)	1,617
Investment expenses	(4,539)	(4,014)	(1,505)
Net investment income (loss)	86,999	62,763	(4,042)
Current year unrestricted operating return	7,053	4,639	211
Current year non-operating investment return:			
Unrestricted	38,834	25,256	(825)
Restricted	41,131	32,868	(3,428)
Total current year investment return	87,018	62,763	(4,042)
Prior year return designated for current operations:			
Unrestricted	(6,080)	(5,866)	(5,985)
Restricted	(7,016)	(6,647)	(6,794)
Total designated for current operation	(13,096)	(12,513)	(12,779)
Net non-operating investment return:			
Unrestricted	\$ 33,387	\$ 19,391	\$ (6,810)
Restricted	33,481	26,221	(10,222)

Investment Commitments - Howard's investment commitments as of June 30, 2014, 2013 and 2012, are summarized below. These investments do not have readily ascertainable market values and may be subject to withdrawal restrictions.

Investment Commitments	June 30, 2014	June 30, 2013	June 30, 2012
Private Equity and Venture Capital Funds	\$ 151,703	\$ 141,703	\$ 136,703
Real Estate Funds	15,000	15,000	15,000
Total financial commitment	\$ 166,703	\$ 156,703	\$ 151,703
Amounts funded	148,726	133,601	124,554
Underfunded commitment	\$ 17,977	\$ 23,102	\$ 27,149

Note 13 Net Assets

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

Temporarily Restricted Net Assets	June 30, 2014	June 30, 2013	June 30, 2012
Scholarships	\$ 54,511	\$ 47,271	\$ 41,362
Professorships	34,753	29,758	24,815
Student loans	1,173	947	690
Federal term	128,648	114,677	104,718
General operations and other	37,698	30,197	28,878
Total	\$ 256,783	\$ 222,850	\$ 200,463

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, 2014, 2013 and 2012, the transfer amounts were \$10,612, \$8,300 and \$5,933, 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	June 30, 2014	June 30, 2013	June 30, 2012
Scholarships	\$ 54,633	\$ 52,863	\$ 51,694
Professorships	24,151	23,530	17,041
Student loans	36,321	35,925	35,346
General operations and other	10,838	10,892	10,464
Total	\$ 125,943	\$ 123,210	\$ 114,545

Net assets were released from donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors as noted for fiscal years ended June 30, 2014, 2013 and 2012.

Net Assets Released from Restrictions	June 30, 2014	June 30, 2013	June 30, 2012
Federal term	\$ 10,612	\$ 8,300	\$ 5,933
Restrictions released based on purpose:			
Scholarships and fellowships	3,671	4,130	5,562
Professorships	626	743	720
Student loans	127	114	160
General operations and other	2,024	2,130	2,231
Total	\$ 17,060	\$ 15,417	\$ 14,606

Note 14 Endowment Fund

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

Interpretation of Relevant Law

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

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

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

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

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

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

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

As of June 30, 2014, 2013 and 2012 total endowment funds classified as permanently restricted and temporarily restricted net assets were:

Restricted Endowment	June 30, 2014	June 30, 2013	June 30, 2012
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:	\$ 80,975	\$ 78,771	\$ 75,326
Temporarily Restricted Net Assets			
Time restricted funds	145,272	129,425	118,338
The portion of perpetual endowment funds subject to a time restriction under DC UPMIFA:			
Without purpose restrictions	4,707	3,921	3,077
With purpose restrictions	64,463	54,471	45,627
Total endowment funds classified as temporarily restricted net assets	\$ 214,442	\$ 187,817	\$ 167,042

The Howard University
Notes to the Consolidated Financial Statements
For Fiscal Years Ended June 30, 2014, 2013 and 2012 (amounts in thousands)

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

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

The change in value and the composition of amounts classified as endowment as of June 30, 2013 is as follows:

Endowment Change in Value For period ended June 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 221,937	\$ 167,042	\$ 75,326	\$ 464,305
Investment return:				
Investment income	5,158	6,047	207	11,412
Net appreciation (realized and unrealized)	22,478	24,522	169	47,169
Total investment return	\$ 27,636	\$ 30,569	\$ 376	\$ 58,581
Contributions	376	3,513	1,068	4,957
Appropriation of endowment assets for operations	(7,350)	(5,073)	(89)	(12,512)
Other changes:				
Match release	8,300	(8,300)	-	-
Transfer and other changes	38	66	2,090	2,194
Endowment net assets, end of year	\$ 250,937	\$ 187,817	\$ 78,771	\$ 517,525
Donor-restricted endowment funds	(5,182)	187,817	78,771	261,406
Board-designated endowment funds	256,119	-	-	256,119
Endowment net assets, end of year	\$ 250,937	\$ 187,817	\$ 78,771	\$ 517,525

The change in value and the composition of amounts classified as endowment as of June 30, 2012 is as follows:

Endowment Change in Value For period ended June 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 223,310	\$ 178,855	\$ 74,530	\$ 476,695
Investment return:				
Investment income	4,067	3,508	167	7,742
Net appreciation (realized and unrealized)	(4,691)	(7,477)	(721)	(12,889)
Total investment return	\$ (624)	\$ (3,969)	\$ (554)	\$ (5,147)
Contributions	350	3,628	1,316	5,294
Appropriation of endowment assets for operations	(7,072)	(5,599)	(108)	(12,779)
Other changes:				
Match release	5,933	(5,933)	-	-
Transfer and other changes	40	60	142	242
Endowment net assets, end of year	\$ 221,937	\$ 167,042	\$ 75,326	\$ 464,305
Donor-restricted endowment funds	(3,915)	167,042	75,326	238,453
Board-designated endowment funds	225,852	-	-	225,852
Endowment net assets, end of year	\$ 221,937	\$ 167,042	\$ 75,326	\$ 464,305

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, 2014, 2013 and 2012 receivables of \$3,405, \$3,452 and \$3,623, 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 \$2,666, \$5,182 and \$3,915 as of June 30, 2014, 2013 and 2012, respectively. Howard has adopted a policy allowing spending in certain situations from underwater, donor-restricted endowment funds, absent overriding provisions in donor agreements. Howard's investment and spending policy is intended to conform with the UPMIFA which allows spending in underwater endowments, in support of an endowment's purpose.

Return Objectives and Risk Parameters - Howard has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to minimize the risk associated with obtaining such income streams. Endowment assets include those that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated endowment funds. Under these

policies the endowment assets are invested through a well-diversified investment program designed to exceed the risk-adjusted performance of the market benchmark representative of each asset class over rolling five to seven year periods. Howard's objective, over time, is to obtain an average total real rate of return (inflation adjusted) that exceeds its targeted distribution amount over rolling five to seven year periods. Howard's investment strategy aims for a low to moderate level of investment risk. Actual returns in any given year may significantly vary from this objective.

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

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

Note 15 **Estimated Third-Party Settlements**

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

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

Medicare 2009-2014
Medicaid 2012-2014

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an (decrease) increase in net patient service revenues of approximately \$(8,879), \$2,756 and \$5,179 for fiscal years ended June 30, 2014, 2013 and 2012, respectively.

Third-party settlement revenue	June 30, 2014	June 30, 2013	June 30, 2012
Medicare appeals	\$ (9,472)	\$ 2,114	\$ (1,007)
Medicare pass-through	10,907	11,895	10,493
Disproportionate Share Hospital	37,406	34,656	29,513
Graduate Medical Education	5,338	5,719	4,272
Other	5,773	175	44
Total third-party settlement revenue	\$ 49,952	\$ 54,559	\$ 43,315

Note 16 Property, Plant and Equipment

Property, Plant and Equipment	June 30, 2014	June 30, 2013	June 30, 2012
Land and land improvements	\$ 27,911	\$ 27,911	\$ 27,911
Buildings and building improvements	862,238	834,969	816,208
Property held for expansion	56,929	57,013	57,013
Furniture and equipment	292,751	285,777	275,348
Library books	91,036	90,758	90,093
Equipment under capital leases	81,475	74,557	62,898
Software	112,941	107,464	97,429
Software in progress	5,833	3,228	3,635
Construction in progress	50,849	31,973	27,399
Property, plant and equipment, gross	1,581,963	1,513,650	1,457,934
Accumulated depreciation and amortization	(956,361)	(900,569)	(849,493)
Property, plant and equipment, net	\$ 625,602	\$ 613,081	\$ 608,441

For fiscal year ended June 30, 2014, there were \$70,211 in additions and non gain or loss increase (decrease) and \$1,898 in sales, disposals and retirements.

Depreciation expenses for the fiscal years ended June 30, 2014, 2013 and 2012 were \$55,900, \$52,625 and \$50,453, respectively. For fiscal years ended June 30, 2014, 2013 and 2012, respectively, net interest costs of \$592, \$905 and \$1,069, were incurred during construction and capitalized as part of the cost of capital projects.

Note 17 **Leases**

Lease Obligations

Howard is obligated under capital leases for office and medical equipment that extend through 2017 and the chiller plant that extends through 2031 (see below) in the amounts of \$44,125, \$47,355 and \$43,431, respectively at June 30, 2014, 2013 and 2012. The assets are amortized over their estimated useful lives. Accumulated amortization related to the leased assets is \$46,764, \$36,845 and \$27,641, respectively.

At June 30, 2014, Howard has remaining capacity to draw an additional \$18,815 under an existing lease financing arrangement primarily to finance medical and information technology equipment. The lease periods commence in future months and continue for a period of five years after the start date.

Howard has several non-cancelable operating leases for office space and equipment that expire by 2019. Rental payments are recognized on a straight-line basis and reflected in the statements of activities within professional and administrative services expense. Rent expense related to building space and equipment for fiscal years ended June 30, 2014, 2013 and 2012 was \$5,590, \$5,832 and \$7,702, respectively.

At June 20, 2014, the minimum lease payments under capital leases and non-cancelable operating leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follow:

Lease Obligations	Capital Leases	Operating Leases
2015	\$ 13,483	\$ 1,626
2016	10,106	742
2017	6,500	472
2018	4,099	432
2019	2,902	328
2020 and thereafter	26,858	-
Obligation, gross	63,948	3,600
Amounts representing interest rates from 2% to 10%	(19,823)	-
Total Lease Obligations, net	\$ 44,125	\$ 3,600

Lease Income

Howard leases property to several area businesses, non-profit organizations and individuals under non-cancelable operating leases. Howard receives monthly income under these lease agreements, which have termination dates through 2019 and thereafter. Total lease income received for fiscal years ended June 30, 2014, 2013 and 2012 was \$1,505, \$1,384 and \$1,175, respectively.

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

Future minimum lease income	June 30
2015	\$ 797
2016	689
2017	625
2018	535
2019	417
2020 and thereafter	1,492
Total minimum lease income receipts	\$ 4,555

Note 18 Bonds and Notes Payable

(a) Bonds Payable

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

Bonds Payable	June 30, 2014	June 30, 2013	June 30, 2012
<i>District of Columbia issues:</i>			
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	\$ 8,650	\$ 9,159	\$ 9,674
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	225,250	225,250	225,250
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035	65,065	65,065	65,065
Total bonds payable, gross	\$ 298,965	\$ 299,474	\$ 299,989
Unamortized bond premium (discount)	(5,771)	(5,978)	(6,204)
Total bonds payable, net	\$ 293,194	\$ 293,496	\$ 293,785

(1) 2010 Revenue Bonds

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

(2) 2011 Revenue Bonds

In April 2011, Howard issued \$225,250 of tax exempt revenue bonds (Series 2011A) and \$65,065 of taxable revenue bonds (Series 2011B) to refund the Series 1998 and Series 2006 bonds and to finance new capital improvements. The interest rate on the tax exempt bonds range from 5.25% to 6.50% and the bonds are repayable from 2020 to 2041. The taxable bonds bear interest between 4.31% and 7.63% and are repayable from 2015 to 2035. The average coupon is 6.57%. The 2011 bonds

require Howard to maintain a debt service fund of \$12,634. At fiscal year ended June 30, 2014 the fund balance was \$12,880.

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

The Series 2011B Bonds are subject to optional redemption prior to maturity in whole or in part on any Business Day at the Make-Whole Redemption Price at the direction of Howard. 2011 Bond proceeds of \$19,782 have been used to create a deposit for capitalized interest. The remaining balance of this fund is \$0 at June 30, 2014.

Moody's Investors Service downgraded Howard's Series 2011A and 2011B bonds to Baa1 from A3, concluding the review initiated July 8, 2013. Standard & Poor's Ratings Services downgraded Howard's Series 2011A and 2011B bonds to BBB+ from A- with a stable outlook, concluding the review on March 5, 2014. The downgrade is largely driven by pressure on all of the University's major revenue sources. Howard has put into motion a strategy to boost operational efficiency and make long-term structural changes to Howard and the Hospital.

(3) Fair Value of Bonds

The estimated fair value of Howard's bonds is determined based on quoted market prices. At June 30, 2014, 2013 and 2012, the estimated fair value was approximately \$330,896, \$330,776 and \$344,872, respectively. Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of judgment. Howard is not required to settle its debt obligations at fair value and settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding tax-exempt debt.

(b) *Notes Payable*

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

Notes Payable	June 30, 2014	June 30, 2013	June 30, 2012
Bank of America Commercial Loan			
Due monthly, July 2007 through June 30, 2013 fixed interest rate of LIBOR plus 0.75%	\$ -	\$ -	\$ 780
Bank of America Property Loan			
Due monthly, through June 1, 2017 variable interest rate of LIBOR plus 3.50%	5,447	6,499	7,647
Multi-bank Agreement			
Due June 24, 2015, variable interest rate at daily LIBOR plus 2.5%	65,000	40,000	30,142
Total Notes Payable	\$ 70,447	\$ 46,499	\$ 38,569

In June 2014, Howard replaced its \$135,000 Multi-bank Credit Agreement with a \$100,000 Multi-bank Credit Agreement that extends through June, 2015. Outstanding borrowings under these agreements at June 30, 2014, 2013 and 2012 were \$65,000, \$40,000 and \$30,142, respectively.

In February 2014, Howard amended its financing agreement for the Bank of America Property Loan for the unpaid principal balance of \$5,447, extending the final maturity date from May 31, 2014 to June 1, 2017.

On July 21, 2011, Howard entered into an interest rate cap with SunTrust Bank to protect against one-month Libor rising above 2% over the next three years on a notional value of \$20,000.

(c) *Compliance with Contractual Covenants*

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

The 2011 Bond and Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2014.

Covenant	Instrument	Measurement Dates	Criteria
Debt Service Coverage Ratio	2011 Revenue Bonds	June 30 each year	1.10:1.00
Debt Service Coverage Ratio	Multi-bank Credit Agreement	June 30 each year	1.25:1.00
Liquidity Ratio	Multi-bank Credit Agreement	June 30 and December 31	0.25:1.00

At June 30, 2014 Howard was in compliance with the Liquidity Ratio for the 2011 Revenue Bonds and the Multi-bank Credit Agreement, but was not in compliance with Debt Service Coverage Ratio for the Multi-bank Credit Agreement. The University, as required by the terms of the Multi-bank Credit Agreement, has granted lenders a security interest in collateral in the form of cash and securities and delivered to their collateral agent. The carrying value of the pledged securities is \$128,952 and is reported in endowment investments. The University will pledge additional collateral when the collateral value is less than the minimum collateral amount. The collateral agent is not allowed to re-pledge or sell the collateral securities.

At June 30, 2013 and 2012 Howard was in compliance with the Liquidity Ratio and the Debt Service Coverage Ratio for the 2011 Revenue Bonds and the Multi-bank Credit Agreement.

(d) *Scheduled Bond and Note Repayments*

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

Aggregate Annual Maturities	June 30, 2014	June 30, 2013	June 30, 2012
2013	NA	NA	\$ 2,444
2014	NA	\$ 47,041	37,182
2015	\$ 67,319	569	569
2016	3,813	1,998	1,998
2017	4,426	2,544	2,544
2018	2,771	2,771	2,771
2019	3,480	3,480	3,480
2020 and thereafter	287,603	287,570	287,570
Subtotal	369,412	345,973	338,558
Bond premiums/(discounts)	(5,771)	(5,978)	(6,204)
Total	\$ 363,641	\$ 339,995	\$ 332,354

(e) *Interest Rate Swaps*

In April 1998, Howard entered into an interest rate swap agreement, a derivative instrument, with Bank of America, N.A., whereby Howard agreed to pay Bank of America a 6.7% fixed rate of interest on \$17,233 in exchange for the receipt of a floating interest payment based on the 30-day London Interbank Offered Rate (LIBOR) plus 75 basis points. (LIBOR at June 30, 2013 was 0.19%). This agreement ended June 30, 2013.

The gains and losses recognized under the interest rate swap agreements for fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

Interest Rate Swaps	June 30, 2014	June 30, 2013	June 30, 2012
Cumulative (loss) at beginning of year	\$ -	\$ (21)	\$ (104)
Gain during the year	-	21	83
Cumulative (loss) at end of year	\$ -	\$ -	\$ (21)

Note 19 Retirement Plans

Pension Plan - Howard has a noncontributory defined benefit pension plan (the Plan) 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.

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

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

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 \$1,710, \$1,737 and \$1,814 at June 30, 2014, 2013 and 2012, respectively. The amounts not yet reflected in operating expenses, but included in unrestricted net assets pertain to accumulated losses of \$943, \$882 and \$862 at June 30, 2014, 2013 and 2012, 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, 2014 are consistent with the method and assumptions used for the defined benefit pension plan.

Savings Plan – Howard supplements its pension plan by offering employees a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible employees received a contribution of 6% of base salary and are also permitted to contribute up to 15% of their base pay to the plan. The administration of the plan is provided by three financial administrators: Teachers Insurance and Annuity Association/College Retirement Equities Fund, American International Group – Variable Annuity Life Insurance Company, and Lincoln Financial. Effective July 1, 2011 Lincoln Financial has been replaced as a financial administrator by Voya Financial (formally ING Financial Advisors). These administered plans provide additional retirement benefits including the purchase of annuity contracts for eligible employees. Total costs recognized in the consolidated statements of activities were \$22,989, \$16,180 and \$23,528 for fiscal years ended June 30, 2014, 2013 and 2012, respectively. The fair value of plan assets for the savings plan for fiscal years ended June 30, 2014, 2013 and 2012 were \$921,876, \$859,653 and \$810,202, respectively. These investments are held by Howard on behalf of its employees and excluded from the consolidated statements of financial position.

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

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

The Howard University
Notes to the Consolidated Financial Statements
For Fiscal Years Ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Howard recognizes a plan's overfunded or underfunded status as an asset or liability, with an offsetting adjustment to unrestricted net assets. The reconciliation of the Plan's funded status to amounts recognized in the consolidated financial statements at June 30, 2014, 2013 and 2012 are as follows:

Retirement Benefits	Pension			Medical and Life Insurance			Savings Plan and Supplemental		
	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012
Change in benefit obligation									
Projected benefit obligation at beginning of year	\$ 616,455	\$ 629,163	\$ 537,993	\$ 67,852	\$ 189,430	\$ 185,017	\$ 1,737	\$ 1,814	\$ 2,235
Service Cost	-	-	-	459	658	473	-	-	-
Interest Cost	28,760	26,180	29,980	3,198	6,631	10,163	78	72	117
Actuarial (gain)/loss	43,938	(7,185)	88,935	4,678	(8,894)	3,408	139	95	(231)
Benefits paid	(32,619)	(31,703)	(27,745)	(10,270)	(13,656)	(14,978)	(244)	(244)	(307)
Special termination benefits	-	-	-	-	-	-	-	-	-
Medicare Part D subsidy	-	-	-	828	813	420	-	-	-
Employee contributions	-	-	-	4,557	5,825	4,927	-	-	-
Prior service amendment	-	-	-	-	-	-	-	-	-
Plan amendments	2,700	-	-	-	(112,955)	-	-	-	-
Projected benefit obligation at end of period	\$ 659,234	\$ 616,455	\$ 629,163	\$ 71,302	\$ 67,852	\$ 189,430	\$ 1,710	\$ 1,737	\$ 1,814
Change in plan assets:									
Fair value of plan assets at beginning of year	489,000	460,955	463,433	-	-	-	-	-	-
Actual return on plan assets	85,230	42,383	(2,733)	-	-	-	-	-	-
Employer contributions	10,994	17,365	28,000	4,885	7,018	9,631	22,722	16,424	23,834
Employee contributions	-	-	-	4,557	5,825	4,927	-	-	-
Medicare Part D subsidy	-	-	-	828	813	420	-	-	-
Benefits paid	(32,619)	(31,703)	(27,745)	(10,270)	(13,656)	(14,978)	(244)	(244)	(307)
Fair value of plan assets at end of period	\$ 552,605	\$ 489,000	\$ 460,955	\$ -	\$ -	\$ -	NA	NA	NA
Total	\$ (106,629)	\$ (127,455)	\$ (168,208)	\$ (71,302)	\$ (67,852)	\$ (189,430)	NA	NA	NA

NA = Not Applicable

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at June 30, 2014, 2013 and 2012:

Retirement Benefits	Pension			Medical and Life Insurance			Savings Plan and Supplemental		
	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012
Recognized in Statement of Activities									
Amortization of transition obligation	\$ -	\$ -	\$ -	\$ -	\$ 2,841	\$ 3,774	\$ -	\$ -	\$ -
Amortization of prior service cost	-	-	-	-	(1,634)	2,137	-	-	-
Amortization of net actuarial loss	7,972	8,058	3,892	621	498	228	79	75	100
Total amortization	\$ 7,972	\$ 8,058	\$ 3,892	\$ 621	\$ 1,705	\$ 6,139	\$ 79	\$ 75	\$ 100
Service Cost	-	-	-	459	658	473	22,478	16,180	23,528
Interest Cost	28,760	26,180	29,980	3,198	6,631	10,163	78	73	117
Curtailment recognition of prior service credit	-	-	-	(12,785)	-	-	-	-	-
Expected return on plan assets	(27,287)	(29,937)	(31,479)	-	-	-	-	-	-
Recognized in operating expenses	\$ 9,445	\$ 4,301	\$ 2,393	\$ (8,507)	\$ 8,994	\$ 16,775	\$ 22,635	\$ 16,328	\$ 23,745
Amortization of transition obligation	-	-	-	-	(2,841)	(3,774)	-	-	-
Amortization of prior service cost	-	-	-	-	1,634	(2,137)	-	-	-
Amortization of net actuarial loss	(7,972)	(8,058)	(3,892)	(621)	(498)	(228)	(79)	(75)	(100)
Total amortization	\$ (7,972)	\$ (8,058)	\$ (3,892)	\$ (621)	\$ (1,705)	\$ (6,139)	\$ (79)	\$ (75)	\$ (100)
Net actuarial (gain) loss during the year	(14,011)	(19,631)	123,166	2,839	(6,441)	3,408	139	95	(231)
New prior service cost arising during period	2,700	-	-	12,785	(112,955)	-	-	-	-
Total recognized in other changes in unrestricted net assets	\$ (19,283)	\$ (27,689)	\$ 119,274	\$ 15,003	\$ (121,101)	\$ (2,731)	\$ 60	\$ 20	\$ (331)
Total recognized in Statements of Activities	\$ (9,838)	\$ (23,388)	\$ 121,667	\$ 6,496	\$ (112,107)	\$ 14,044	\$ 22,695	\$ 16,348	\$ 23,414

Amounts included in unrestricted net assets at June 30, 2014, 2013 and 2012:

Retirement Benefits	Pension			Medical and Life Insurance		
	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012
Net actuarial loss	\$ (233,088)	\$ (249,900)	\$ (277,589)	\$ (13,675)	\$ (12,818)	\$ (19,757)
Prior service cost	(2,700)	-	-	57,927	70,712	(39,663)
Transition obligation	-	-	-	-	-	(3,787)
Total	\$ (235,788)	\$ (249,900)	\$ (277,589)	\$ 44,252	\$ 57,894	\$ (63,207)

The estimated net actuarial gain, 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 current fiscal year are \$9,302, \$(12,785) and \$0, respectively. Contributions of \$10,994, \$17,365 and \$28,000 were made in fiscal years 2014, 2013 and 2012, respectively.

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

Actuarial Assumptions	Pension Benefits			Post-retirement Benefits		
	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012
Discount rate	4.25%	4.82%	4.29%	4.29%	4.89%	4.25%
Expected return on plan assets	7.00%	7.00%	7.50%	0.00%	0.00%	0.00%
Rate of compensation increase	-	-	-	3.50%	3.50%	3.50%

The weighted average assumptions used to determine net periodic cost in the actuarial valuations for fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

Actuarial Assumptions	Pension Benefits			Post-retirement Benefits		
	FY2014	FY2013	FY2012	FY2014	FY2013	FY2012
Discount rate	4.82%	4.29%	5.76%	4.89%	4.25%	5.69%
Expected return on plan assets	7.00%	7.00%	7.50%	0.00%	0.00%	0.00%
Rate of compensation increase						
To age 35	-	-	-	3.50%	3.50%	3.50%
Thereafter	-	-	-	3.50%	3.50%	3.50%

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

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

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

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

Pension plan investments as of June 30, 2013 were as follows:

Pension Plan Investments as of June 30, 2013	Level 1	Level 2	Level 3	Total
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	\$ -	\$ 5,486	\$ -	\$ 5,486
Commingled Funds				
Emerging market equity (3)	-	48,256	-	48,256
US Common Stock (3)	-	26,683	-	26,683
Commodity Inflation Hedging (8)	-	16,015	-	16,015
Common Stock (3)	46,606	-	-	46,606
Fixed Income (2)				
Asset backed	-	6,281	-	6,281
Corporate Bonds	-	2,131	-	2,131
Government Bond	46,547	-	-	46,547
Hedge Funds (4)				
Distressed Debt	-	2,793	-	2,793
Equity Long/short	-	4,866	-	4,866
Event driven	-	2,561	2,849	5,410
Multi Global opportunities	-	3,752	-	3,752
Mutual Funds Investment				
Domestic common stock (3)	34,388	-	-	34,388
Emerging market equity (3)	22,242	-	-	22,242
International equity (3)	27,856	-	-	27,856
Domestic Fixed Income (2)	60,998	-	-	60,998
Real Estate (4)	-	-	8,743	8,743
Total assets	\$ 238,637	\$ 143,884	\$ 107,411	\$ 489,932
Liabilities:				
Financial Derivatives – Option Contracts	-	(239)	-	(239)
Total liabilities	\$ -	\$ (239)	\$ -	\$ (239)
Total pension plan investments	\$ 238,637	\$ 143,645	\$ 107,411	\$ 489,693
Assets not subject to fair value reporting	3,197	-	-	3,197
Liabilities not subject to fair value	(3,890)	-	-	(3,890)
Total plan assets	\$ 237,944	\$ 143,645	\$ 107,411	\$ 489,000

Pension plan investments as of June 30, 2012 were as follows:

Pension Plan Investments as of June 30, 2012	Level 1	Level 2	Level 3	Total
Pension Plan Investments				
Money Market Instrument (1)	\$ 821	\$ 13,151	\$ -	\$ 13,972
Commingled Funds				
Emerging market equity (3)	-	37,839	-	37,839
US Common Stock (3)	-	22,785	-	22,785
Commodity Inflation Hedging (8)	103,138	-	-	103,138
Common Stock (3)				
Fixed Income (2)	-	3,783	-	3,783
Corporate Bonds	17	1,370	-	1,387
Government Bond	45,128	-	-	45,128
Hedge Funds (4)				
Distressed Debt	-	2,298	-	2,298
Equity Long/short	-	4,488	-	4,488
Event driven	-	1,861	2,629	4,490
Inflation hedge	-	13,741	-	13,741
Multi-Global opportunities	-	3,389	-	3,389
Multi-strategy	-	23,030	1,988	25,018
Mutual Funds Investment				
Domestic common stock (3)	13,508	-	-	13,508
Emerging market equity (3)	10,198	-	-	10,198
Domestic Fixed Income (2)	53,307	-	-	53,307
Private Equity and Venture Capital (4)	-	-	93,070	93,070
Real Estate (4)	-	-	9,000	9,000
Total pension plan investments	\$ 226,117	\$ 127,735	\$ 106,687	\$ 460,539
Assets not subject to fair value reporting	1,593	-	-	1,593
Liabilities not subject to fair value	(1,176)	-	-	(1,176)
Total plan assets	\$ 226,534	\$ 127,735	\$ 106,687	\$ 460,956

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

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

The following table presents changes in amounts for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2013.

Changes in Level 3 for the period ended June 30, 2013	Equity – Private and Venture Capital	Hedge Funds	Real Estate	Total
Balance July 1, 2012	\$ 93,070	\$ 4,617	\$ 9,000	\$ 106,687
Gain and Loss (Realized and Unrealized)	13,753	601	836	15,190
Purchases	8,858	-	-	8,858
Transfer out and sales	(22,231)	-	(1,093)	(23,324)
Balance at June 30, 2013	\$ 93,450	\$ 5,218	\$ 8,743	\$ 107,411
Change in unrealized investments held	\$ 5,003	\$ 601	\$ 934	\$ 6,538

The following table presents changes in amounts for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2012.

Changes in Level 3 for the period ended June 30, 2012	Equity – Private and Venture Capital	Hedge Funds	Real Estate	Total
Balance July 1, 2011	\$ 85,327	\$ 4,541	\$ 8,640	\$ 98,508
Gain and Loss (Realized and Unrealized)	5,183	76	701	5,960
Purchases	14,046	-	136	14,182
Transfer out and sales	(11,486)	-	(477)	(11,963)
Balance at June 30, 2012	\$ 93,070	\$ 4,617	\$ 9,000	\$ 106,687
Change in unrealized investments held	\$ 424	\$ 76	\$ 573	\$ 1,073

Pension Plan Investment Commitments – Howard’s investment commitments as of June 30, 2014, 2013 and 2012 are summarized below. Additionally, some of these investments do not have readily ascertainable market values and may be subject to withdrawal restrictions and are less liquid than Howard’s other investments.

Pension Plan Investment Commitments	June 30, 2014	June 30, 2013	June 30, 2012
Private Equity Funds	\$ 144,203	\$ 139,203	\$ 136,703
Real Estate Funds	15,000	15,000	15,000
Total financial commitment	159,203	154,203	151,703
Amounts funded	144,844	133,412	124,554
Unfunded commitment	\$ 14,359	\$ 20,791	\$ 27,149

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	June 30, 2014	June 30, 2013	June 30, 2012	Allowable Range
Mid-Large Cap U.S. Equity	11.50%	13.60%	18.00%	10-20%
Small Cap U.S. Equity	3.90%	4.80%	4.50%	0-10%
International Equity - Developed	15.80%	15.50%	13.10%	10-20%
Private Equity/Venture Capital	15.70%	19.10%	20.00%	5-15%
Hedge Funds	5.20%	9.00%	8.70%	5-10%
Inflation Hedging	9.70%	8.60%	7.90%	10-15%
Emerging Markets Equity	2.30%	4.50%	2.20%	0-10%
U.S. Long Bonds	31.70%	23.70%	22.60%	25-35%
Cash and Cash Equivalents	4.20%	1.20%	3.00%	0-5%
Total	100%	100%	100%	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2014 is 7.58%. This growth rate was assumed to decrease gradually to 4.5% in 2030 and to remain at this level thereafter. The growth rate in the trend rate dental care costs used in the calculations for fiscal year 2014 is 5.7%. The growth rate was assumed to decrease gradually to 4.5% by 2030 and to remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

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

Expected Future Benefit Payments	Pension Benefits	Post-retirement Benefits		
		Excluding Subsidy	Subsidy Payments	Net of Subsidy
Year ending June 30:				
2015	\$ 40,859	\$ 4,981	\$ (97)	\$ 4,884
2016	42,023	4,917	(98)	4,819
2017	43,129	4,878	(98)	4,780
2018	43,918	4,800	(97)	4,703
2019	42,386	4,722	(97)	4,625
Years 2020-2024	212,292	17,652	(359)	17,293
Total	\$ 424,607	\$ 41,950	\$ (846)	\$ 41,104

Note 20 **Commitments and Contingencies**

(a) ***Federal Awards***

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

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

During the ordinary course of business, Howard is a party to various litigation and other claims in the ordinary course of business including claims of malpractice by the Hospital and faculty physicians. It is also subject to potential future claims based on findings or accusations arising from past practices under governmental programs and regulations and tort law. In fiscal years ended June 30, 2014, 2013 and 2012 Howard reserved \$3,664, \$6,690 and \$7,119, respectively, for legal contingencies. In the opinion of management and Howard's general counsel, an appropriate monetary provision has been made to account for probable losses upon ultimate resolution of these matters.

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

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

Note 21 **Related Party Transactions**

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

Howard University Board of Trustees founded Howard University Charter Middle School of Mathematics and Science, which operates from premises owned by Howard. The Middle School is a separate legal entity and not a component of Howard. For fiscal years ended June 30, 2014, 2013 and 2012, Howard has contributed to the Middle School as follows:

Related Party Transactions	June 30, 2014	June 30, 2013	June 30, 2012
Cash operating support	\$ 900	\$ 764	\$ 500
Donated computer equipment	-	236	204
Facility leased (market value)	1,009	1,009	1,009
Total	\$ 1,909	\$ 2,009	\$ 1,713

(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 and ARA jointly guarantee 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 June 30, 2014, 2013 and 2012 the consolidated statements of financial position for the LLC is as follows:

Howard Dialysis Center, LLC Statement of Financial Position as of the fiscal years ended	June 30, 2014	June 30, 2013	June 30, 2012
Total Assets	\$ 12,069	\$ 11,919	\$ 11,119
Total Liabilities	1,177	2,123	2,066
Equity			
Partner	8,986	8,986	9,000
Retained earning	1,906	810	53
Total Equity	\$ 10,892	\$ 9,796	\$ 9,053
ARA interest	\$ 5,555	\$ 4,996	\$ 4,617
Howard interest	\$ 5,337	\$ 4,800	\$ 4,436

(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 two Student Dormitory Facilities ("dorms") for the benefit of the University. The Owner issued \$107,965 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 dorms are the responsible of the Owner, and the bonds are to be repaid from revenues from the dorms. Ownership of the dorms will revert to Howard upon termination of the Ground Lease and full repayment of the debt. The dorms were completed and placed in service in August 2014.

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

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

Note 22 **Subsequent Events**

Howard performed an evaluation of subsequent events through December 23, 2014, which is the date the consolidated financial statements were issued, noting no additional events other than those as described below which materially affect the consolidated financial statements as of June 30, 2014.

(a) ***Howard University Hospital***

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

(b) ***Compliance with Contractual Covenants***

At June 30, 2014, Howard was not in compliance with Debt Service Coverage Ratio for the Multi-Bank Credit Agreement. The non-compliance was cured October 31, 2014. See Note 18 for additional information.

(c) ***2011 Revenue Bonds***

On July 3, 2014, Moody's Investors Service downgraded Howard's Series 2011A and 2011B bonds to Baa3 with a negative outlook from Baa1. The downgrade to Baa3 reflects the precipitous deterioration of the Hospital's operations.

(d) ***Campus Apartments***

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