



# TREASURER'S REPORT

September 2011

## SEPTEMBER FY2012 FOR THE FIRST QUARTER ENDED SEPTEMBER 30, 2011

### Highlights

- ▶ Recorded a break-even operating result compared with a Q1 needed minimum result of positive \$5m.
- ▶ Adjusting for the Q1 one-time endowment transfer, the core operating result was negative by \$13m, compared with a full year commitment of positive \$17m, requiring a \$30m positive result over next three quarters.
- ▶ Operating revenue of \$208m represents approximately 24% of Plan. Risks to the revenue Plan are most acute in Hospital patient service revenue, as inpatient volumes lag prior year and Plan; and lower investment income due to volatile capital markets - combined \$10m risk.
- ▶ Operating expense of \$208m represents approximately 26% of Plan, and is trending towards a \$30m unfavorable variance - combination of an unadjusted employment cost structure (\$20m), and professional services spending (\$10m).
- ▶ Non-operating items include investment losses of \$33m, endowment transfer of \$13m, higher retirement obligations of \$84m, and restructuring/other costs of \$4m, which decreased net assets by \$134m, considering break-even operations.
- ▶ Cash flow available for debt service was positive by \$15m, about 15% of Plan, and provided a debt service coverage ratio of 1.96:1 against a 1.25:1 bank covenant.
- ▶ Liquidity facilities total approximately \$389m, a \$26m deterioration from FY2011 year end largely caused by poor capital market performance - yielding a 51% coverage of cash expenses against a 35% bank covenant.
- ▶ Awarded \$21m in new grants and contracts, approximately 32% of the full year target.
- ▶ Liquidity was challenged in the Q1, as \$20m was required to be contributed into the pension plan causing an increase in the multi-bank line of credit of \$15m in the quarter.
- ▶ Outlook for FY2012 is down to \$15m from a commitment of \$30m reflecting compensation and administrative cost overruns.

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### Public Bonds

#### Trading Value:

At 09/30/11 = \$0.97-\$1.18

At 06/30/11 = \$0.92-\$1.14

#### Credit Ratings:

Moody's = A3 (negative)

S&P = A- (stable)

### Top 10 Bond Holders

Oppenheimer	\$36m
Citi Relative	\$22m
Alliance Bernstein	\$19m
Putnam	\$19m
PNC	\$10m
BlackRock Advisers	\$7m
Great Southern Life	\$5m
Aetna Health & Life	\$4m
Massachusetts	\$3m
Wells Capital	\$3m

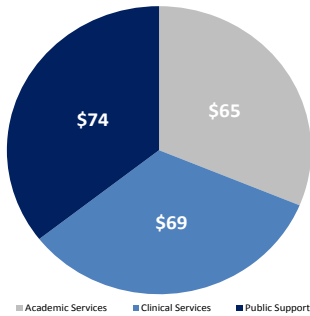
## SUMMARY RESULTS—AS OF SEPTEMBER 2011

Summary Financial Results					
(\$ in millions)	FY2010	FY2011	FY2012		
	Actual	Actual	YTD	Plan	% of Plan
Academic Services	\$ 248	\$ 265	\$ 65	\$ 285	23%
Clinical Services	276	291	69	286	24%
Public Support	286	281	74	275	27%
<b>Total Operating Revenues</b>	<b>810</b>	<b>837</b>	<b>208</b>	<b>846</b>	<b>25%</b>
Academic Services	376	395	97	377	26%
Clinical Services	279	287	70	279	25%
Institutional Support	151	142	41	140	29%
<b>Total Operating Expenses</b>	<b>806</b>	<b>824</b>	<b>208</b>	<b>796</b>	<b>26%</b>
CFO Contingency	-	-	-	(20)	NM
<b>Operating Income (Loss)</b>	<b>4</b>	<b>13</b>	<b>-</b>	<b>30</b>	<b>0%</b>
Non-Operating Income (Loss)	(33)	121	(134)	-	NM
<b>Change in Net Assets</b>	<b>\$ (29)</b>	<b>\$ 134</b>	<b>\$ (134)</b>	<b>\$ 30</b>	<b>-447%</b>

- ◇ **Academic Services Revenue**—which includes tuition, fees, grants and auxiliaries - is trending 2% below Plan, but 5% higher than FY2011. Tuition and fees were \$48m gross and \$34m net, reflecting Board-approved rates and achieving budgeted Fall semester enrollment of 9,914, offset by higher financial aid. Grant revenue of \$16m is on Plan and about even with last year. Auxiliary Services revenue at \$15m is in line with prior year, but below Plan due to soft radio station advertising revenue - result of lower ratings and price per spot, on flat volume.
- ◇ **Clinical Services Revenue**—which includes the hospital, faculty practice and dental clinic - is below Plan and prior year. An unfavorable admission volume variance to budget (11%) and prior year (9%) in the Hospital and is only partially offset by higher revenue per patient.
- ◇ **Public Support Revenue**—which includes the federal appropriation, private contributions and investments designated for current operations, other income and endowment transfer - exceeded Plan run-rate due to the one-time endowment transfer of \$13m in Q1, partially offset by a \$4m operating investment loss.
- ◇ **Operating Expenses**—trending \$30m above Plan due to projected over-runs in compensation (\$20m), and professional services (\$10m).
- ◇ **Operating Income**—break-even result mainly reflects the \$13m annual endowment transfer fully offset by a \$13m unfavorable core operating result.
- ◇ **Change in Net Assets**— reflects a break-even operating result less \$46m of negative returns and transfers from investment portfolios, and an \$88m unfavorable true-up of retirement plan and other liabilities - reflecting investment losses, and a reduction in the discount rate.

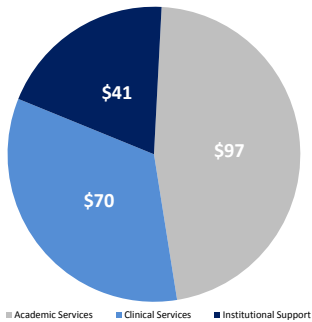
Revenue is 2% off Plan with lower investment income, patient and auxiliary revenue, offset by higher tuition.

**Revenue Mix**



Costs are off Plan by 4% due to unfavorable compensation and general spending variances.

**Cost Mix**



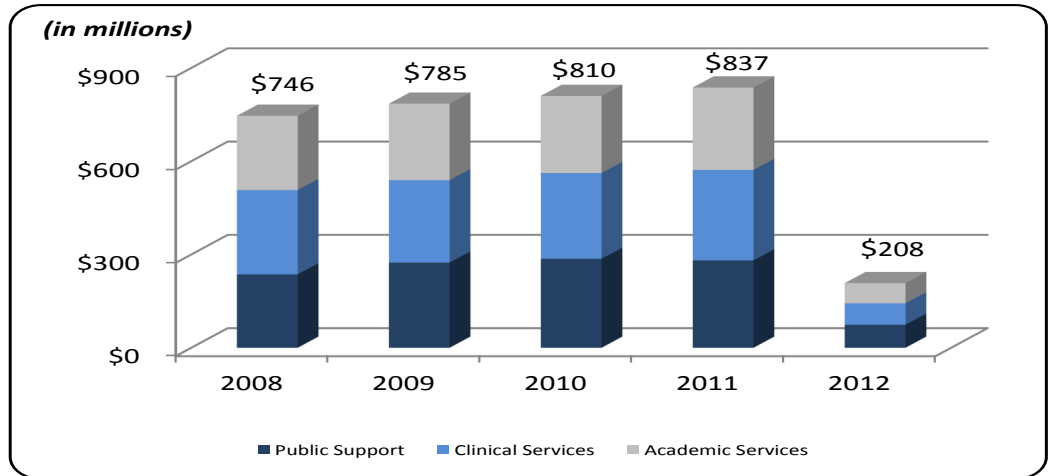
**Profitability**

YTD reflects \$13m for the annual endowment transfer, offset by a \$13m loss from operations toward a Plan commitment of positive \$17m.

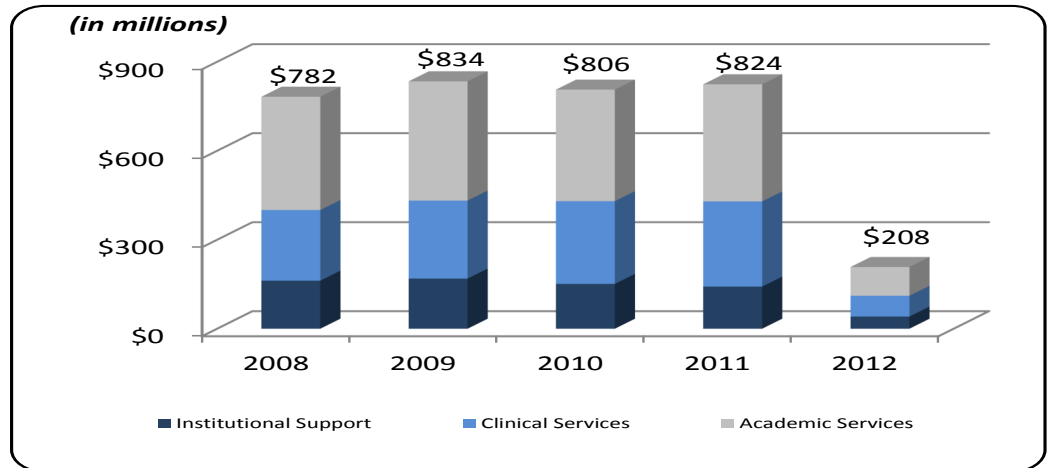
**Lower Than Expected Start - Must Keep Spending In-Line with Realistic Revenue Projections.**

**OPERATING TRENDS**

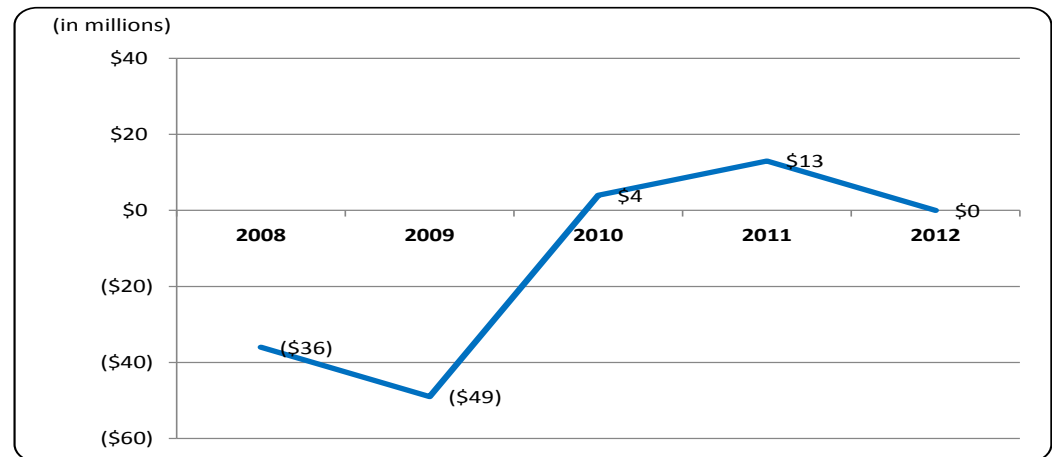
Revenue by Service Line - Average Rate of Growth = 3% through FY2011.



Cost by Service Line - Average Rate of Increase = 5% before FY2010; reduced after FY2009 by VSIRP; but growing by 2% in FY2011 and FY2012 YTD as employment levels returned.



**Operating Profit (Loss)**



**Financial Comparisons vs. Prior Fiscal Year**

Operating Revenue	% of Prior Year
Health Sciences	24%
Academic Affairs	24%
General Administration	27%
Operating Expenses	% of Prior Year
Health Sciences	25%
Academic Affairs	21%
General Administration	28%

*Key metrics are unfavorable to Plan, especially expenses.*

*Rest of the year challenges concentrated in patient revenue, compensation and administrative costs.*

**Student/Faculty Ratio**

Academic Affairs = 7/1  
 Health Sciences = 4/1  
 Combined = 6/1

**Faculty Pay per Student**

FY2012 = \$11,675  
 FY2011 = \$11,334  
 FY2010 = \$10,377

*Reduction - in - force (RIF) fell short of target by \$21m. 3% raises were granted to most full-time employees*

**Recorded Break-Even Operating Result Against a \$30m Commitment**

**OPERATING DIVISIONS—ACCOUNTABILITY MATRIX**

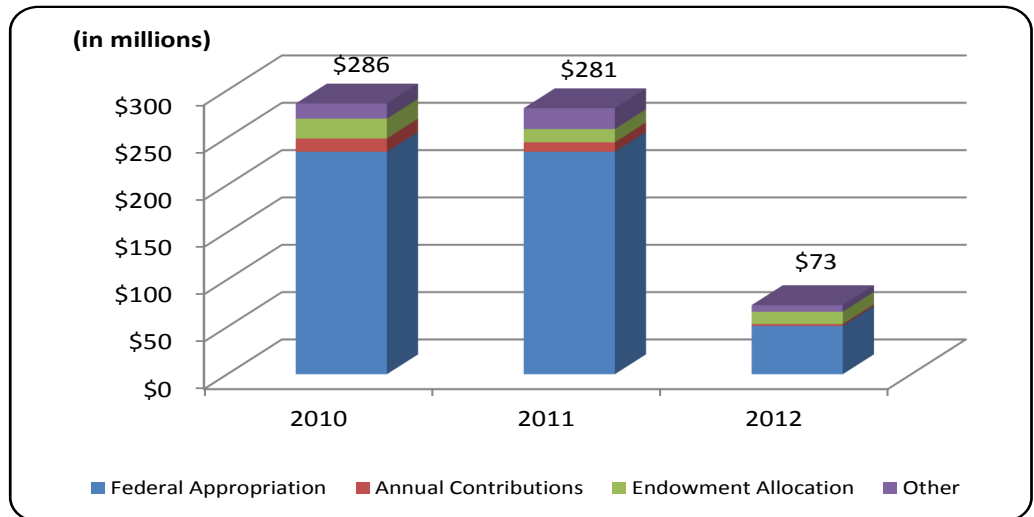
	Health Sciences	Academic Affairs	General Administration	FY2012 YTD	FY2012 Plan	FY2012 YTD % of Plan
<i>(in thousands)</i>						
Number of Patients Served	85,051	-	-	85,051	339,500	25%
Number of Students Enrolled (FTEs)	1,845	8,069	-	9,914	9,500	104%
<b>OPERATING REVENUES</b>						
Gross Tuition	\$ 10,891	\$ 33,652	\$ -	\$ 44,543	\$ 214,000	21%
Less Financial Aid	(1,560)	(12,589)	-	(14,149)	(70,000)	20%
Net Tuition	9,331	21,063	-	30,394	144,000	21%
Student Fees	2,649	518	695	3,862	17,000	23%
Net Tuition and Fees	11,980	21,581	695	34,256	161,000	21%
Grants and Contracts - Direct Costs	5,350	7,342	865	13,557	52,000	26%
Grants and Contracts - Indirect Costs	1,218	1,050	2	2,270	9,000	25%
Total Grants and Contracts	6,568	8,392	867	15,827	61,000	26%
Contributions and Other	2,440	936	10,836	14,212	50,000	28%
Auxiliary Services	14	-	15,226	15,240	63,000	24%
Gross Patient Service	183,035	-	-	183,035	759,200	24%
Less Contractuals	(91,613)	-	-	(91,613)	(395,200)	23%
Less Charity Care	(12,990)	-	-	(12,990)	(52,000)	25%
Less Bad Debt	(8,729)	-	-	(8,729)	(26,000)	34%
Net Patient Service	69,703	-	-	69,703	286,000	24%
<b>TOTAL OPERATING REVENUES</b>	<b>90,705</b>	<b>30,909</b>	<b>27,624</b>	<b>149,238</b>	<b>621,000</b>	<b>24%</b>
<b>Prior Year Revenues</b>	<b>371,134</b>	<b>128,518</b>	<b>103,135</b>	<b>602,787</b>	<b>NM</b>	<b>NM</b>
<b>OPERATING EXPENSES</b>						
Compensation - Faculty/Physicians	16,911	8,986	-	25,897	124,000	21%
Compensation - Staff/Administrators	39,222	10,067	17,855	67,144	251,000	27%
Total Compensation	56,133	19,053	17,855	93,041	375,000	25%
Employee Benefits	14,715	4,927	4,780	24,422	95,000	26%
<b>Total employment expenses</b>	<b>70,848</b>	<b>23,980</b>	<b>22,635</b>	<b>117,463</b>	<b>470,000</b>	<b>25%</b>
Utilities and Telecommunications	2,148	-	5,388	7,536	33,000	23%
Medical and Office Supplies	8,789	556	1,298	10,643	46,000	23%
Repairs and Maintenance	2,001	156	2,249	4,406	19,000	23%
Food Service Costs	514	70	2,509	3,093	12,000	26%
Grant Subcontracts	1,162	2,923	402	4,487	16,000	28%
Travel and Conferences	312	751	1,228	2,291	5,000	46%
Insurance and Risk Management	5,283	-	750	6,033	20,000	30%
Events and Ceremonies	51	91	412	554	2,000	28%
Audit and Compliance	130	-	1,737	1,867	3,000	62%
Professional and Administrative Services	11,103	1,385	14,948	27,436	85,000	32%
Provision for Bad Debts	-	-	624	624	4,000	0%
<b>Total controllable costs</b>	<b>102,341</b>	<b>29,912</b>	<b>54,180</b>	<b>186,433</b>	<b>715,000</b>	<b>26%</b>
Interest Expense	1,218	-	5,237	6,455	18,000	36%
Amortization of Retirement Plan Actuarial Losses	1,559	519	519	2,597	10,000	26%
Depreciation	3,570	-	8,813	12,383	53,000	23%
<b>Total non-employment expenses</b>	<b>37,840</b>	<b>6,451</b>	<b>46,114</b>	<b>90,405</b>	<b>326,000</b>	<b>28%</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>108,688</b>	<b>30,431</b>	<b>68,749</b>	<b>207,868</b>	<b>796,000</b>	<b>26%</b>
<b>REVENUES less EXPENSES</b>	<b>\$ (17,983)</b>	<b>\$ 478</b>	<b>\$ (41,125)</b>	<b>\$ (58,630)</b>	<b>\$ (175,000)</b>	<b>34%</b>
<b>Prior Year Expenses</b>	<b>434,388</b>	<b>143,930</b>	<b>246,020</b>	<b>824,338</b>	<b>NM</b>	<b>NM</b>
<b>Operating Plan</b>	<b>\$ (54,500)</b>	<b>\$ (1,500)</b>	<b>\$ (119,000)</b>	<b>\$ (175,000)</b>	<b>NM</b>	<b>NM</b>
<b>% of Operating Plan</b>	<b>33%</b>	<b>NM</b>	<b>35%</b>	<b>34%</b>	<b>NM</b>	<b>NM</b>
<b>Prior Year 2011</b>	<b>\$ (63,254)</b>	<b>\$ (15,412)</b>	<b>\$ (142,885)</b>	<b>\$ (221,551)</b>	<b>NM</b>	<b>NM</b>
<b>% of Prior Year</b>	<b>28%</b>	<b>(3%)</b>	<b>29%</b>	<b>26%</b>	<b>NM</b>	<b>NM</b>
<b>Prior Year 2010</b>	<b>\$ (62,004)</b>	<b>\$ (19,875)</b>	<b>\$ (148,843)</b>	<b>\$ (230,722)</b>	<b>NM</b>	<b>NM</b>
<b>% of Prior Year</b>	<b>29%</b>	<b>(2%)</b>	<b>28%</b>	<b>25%</b>	<b>NM</b>	<b>NM</b>

**CHALLENGES AND OBSERVATIONS**

- ◆ **Health Sciences** —YTD loss is higher than Plan and prior year due to: 1) a shortfall in patient revenue as seasonally adjusted volume levels have fallen short of Plan and prior year; 2) compensation costs for faculty, physicians and staff have not been fully adjusted to Plan levels; and 3) HUH operating result is off Plan—\$10m YTD operating loss, against a full year Plan loss of \$23m.
- ◆ **Academic Affairs** —YTD loss is better than Plan and prior year due to higher net tuition/fees from an average 11% increase in rates, coupled with lower than planned operating costs at the start of the Fall semester.
- ◆ **General Administration** —YTD loss is higher than Plan and prior year due to higher-than-planned costs for administrative services, contracted operational services and interest expense. Operating investment income is also off Plan and prior year due to capital market volatility - a \$9m unfavorable variance compared to prior year Q1.

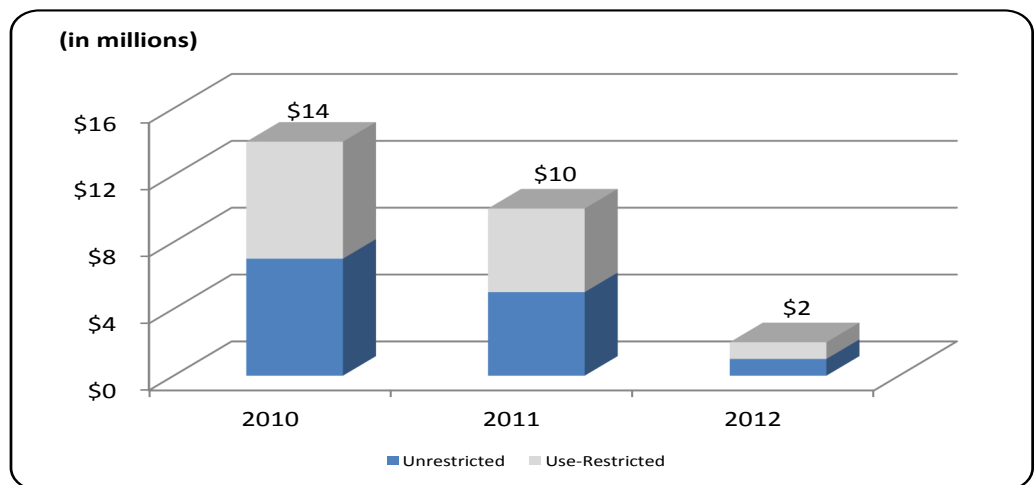
## PUBLIC SUPPORT

### All Sources



- ◇ First installment of the FY2012 Federal appropriation was due in early October, but has been delayed—Q2 liquidity is under stress by about \$20m.
- ◇ Contribution revenue totaled \$2m YTD, against a full year Plan of \$15m.
- ◇ Endowment allocation = 5% of rolling three year balances in Donor and Board restricted endowments.

### Donor Gifts



- ◇ About 45% of total new contributions were use-restricted.
- ◇ \$2m in contributions is trending \$7m (46%) short of Plan and \$2m (20%) short of prior year.
- ◇ Contributions are expected to increase in future quarters, driven by catalyst events such as Homecoming and Charter Day.

*Federal appropriation is expected to be reduced by \$10m to \$225m - waiting for Congressional "Super-Committee" decisions.*

*YTD operating investment loss of \$4m compared to \$5m of income in the prior year.*

*FY2012 Endowment allocation was \$13m, a 7% reduction from the prior year due to high investment losses in 2009.*

*Gifts from donors, on average, cover about 1% of operating costs.*

**FY2011 gifts:**

- > \$1m = 0
- > \$100k = 5
- > \$50k = 6

**Challenge is to Identify New Revenue to Offset a Lower Federal Appropriation**

## CASH FLOW

### Sources/Uses of Cash

YTD cash flow details generally short of Plan and prior year, as planned operating income has not materialized.

Q1 liquidity was supplemented with available lines of credit. \$35m of the \$135m credit facility has been used - a new borrowing of \$15m in Q1.

### Debt Service Cash Flow

\$15m of positive cash available for debt service - approximately 50% of the covenant target.

Cash was used to contribute \$20m to the pension plan, fund \$7m in malpractice claim settlement/premiums, fund \$19m of fixed assets and settle accounts payable.

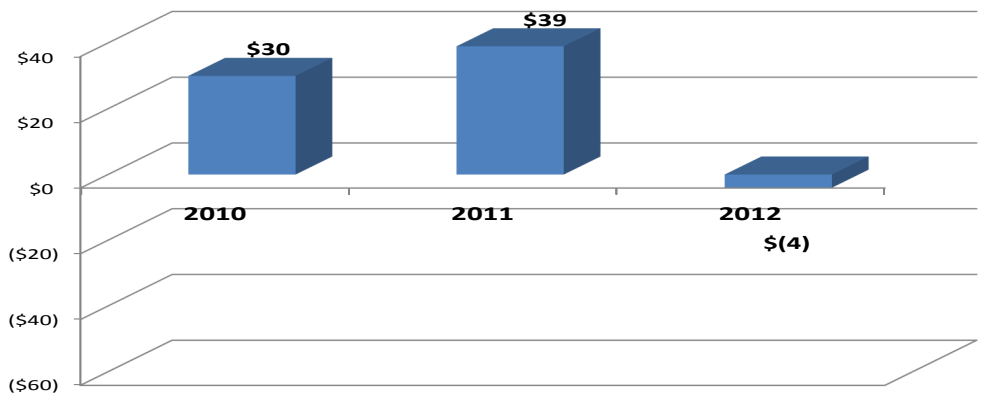
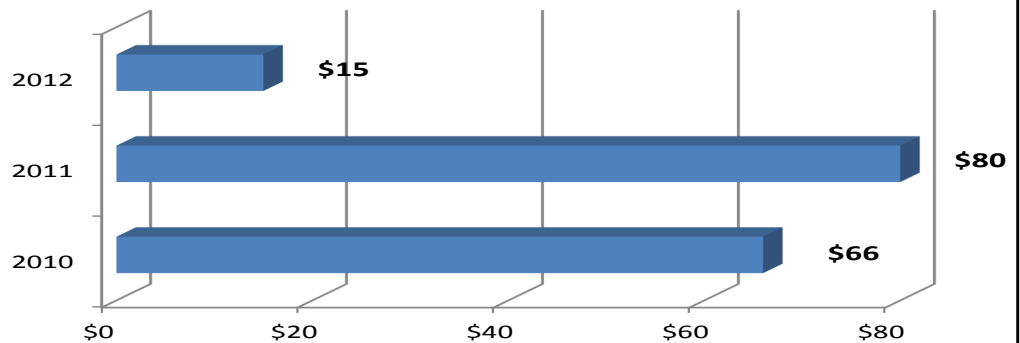
### Operating Free Cash Flow

Cash flow after deducting self-financed capital additions - negative by \$4m and partially due to bond construction reimbursement timing.

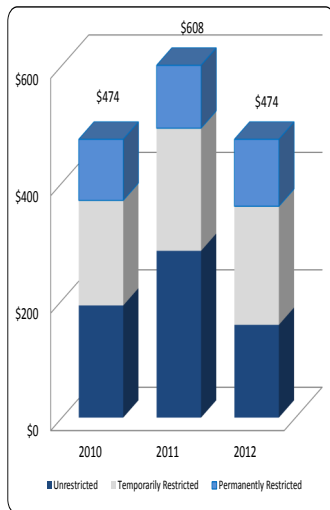
**Cash Generation is Critical for Debt Service and Renewal Initiatives**

(\$ in millions)	FY2010	FY2011	FY2012		
	Actual	Actual	YTD	Plan	% of Plan
<b>Net Operating Income (Expense)</b>	\$ 4	\$ 13	\$ -	\$ 30	0%
Depreciation	50	50	12	53	
Amortization	8	10	3	10	
Interest expense	9	11	6	18	
Restricted revenue	(5)	(4)	(6)	(11)	
<b>Cash Available for Debt Service</b>	<b>66</b>	<b>80</b>	<b>15</b>	<b>100</b>	<b>15%</b>
Annual debt service	(20)	(23)	(6)	(25)	
<b>Debt Service Coverage Ratio</b>	<b>330%</b>	<b>348%</b>	<b>250%</b>	<b>400%</b>	
Purchases of property and equipment	(46)	(66)	(20)	(75)	
Proceeds from dedicated borrowings	10	25	1	50	
<b>Operating free cash flow</b>	<b>30</b>	<b>39</b>	<b>(4)</b>	<b>75</b>	<b>-5%</b>
Net line of credit borrowings	(2)	7	15	30	
Investment activity, net	14	(26)	17	10	
Restricted contributions and other	(3)	(8)	(3)	5	
<b>Cash Flow After Financings and Investments</b>	<b>39</b>	<b>12</b>	<b>25</b>	<b>120</b>	<b>21%</b>
Working capital changes (AR/AP/Other)	(42)	(36)	(38)	(60)	
Changes in deferrals/trusts/other	24	7	53	8	
Retirement expenses accrued	38	46	11	32	
Retirement expenses paid	(37)	(31)	(10)	(45)	
Pension plan contribution	-	-	(20)	(30)	
Restructuring costs paid	(23)	(3)	(1)	(15)	
<b>Net changes in cash</b>	<b>\$ (1)</b>	<b>\$ (5)</b>	<b>\$ 20</b>	<b>\$ 10</b>	<b>200%</b>
<b>Cash - beginning</b>	<b>33</b>	<b>32</b>	<b>27</b>	<b>27</b>	
<b>Cash - end</b>	<b>\$ 32</b>	<b>\$ 27</b>	<b>\$ 47</b>	<b>\$ 37</b>	<b>127%</b>

(in millions)



**Total By Use-Restriction**



Major Projects		
(Amounts in millions)	FY2012 Budget	Funding Source
Extreme "Maker-Overs"	\$ 30	Bond
New Academic Buildings	\$ 20	Bond
<b>Total bond funded</b>	<b>50</b>	
Data Center	1	Cash
Miner Building	2	Cash
Cancer Center	3	Cash
HUH - Equipment / Other	4	Cash
Academic Building Renovations	10	Cash
Other Academic / Student Projects	5	Cash
<b>Total HU funded</b>	<b>25</b>	
<b>Total Capital Budget</b>	<b>\$ 75</b>	

*Approximately \$8m of the \$100m new bond proceeds were spent in Q1 - reimbursed by Bond Trustee in October*

**Managing Capital Based on Priorities, Cash Flow and Strategic Goals**

**NET ASSETS**

(\$ in millions)	FY2010	FY2011	FY2012
<b>Beginning of Period</b>	<b>503</b>	<b>\$ 474</b>	<b>\$ 608</b>
Operating Income (Loss)	4	13	-
Investment Income (Loss)	39	76	(46)
Pension Plan	(53)	61	(76)
Retiree Health/Life	(7)	6	(9)
Other	(12)	(22)	(3)
<b>End of Period</b>	<b>474</b>	<b>\$ 608</b>	<b>\$ 474</b>

- ◇ Net assets were negatively impacted by unrealized investment losses and the true-up of retiree liabilities.
- ◇ Investment loss reflects volatile equity market performance which yielded a total loss of approximately 10% for the endowment (see page 8 for further analysis).
- ◇ Each retirement obligation was increased as the interest rate environment was lower than FY2011 - thus the applicable discount rate used was reduced.
- ◇ Other reflects approximately \$1m of restructuring costs primarily due to the reduction-in-force.

**CAPITAL INVESTMENTS AND COMMITMENTS**

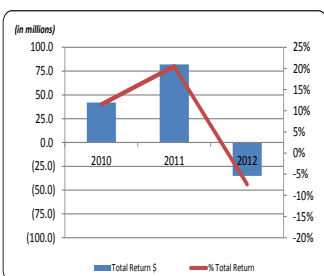
(\$ in millions)	FY2010	FY2011	FY2012		
	Actual	Actual	YTD	Plan	% of Plan
University	\$ 24	\$ 40	\$ 17	\$ 60	28%
Hospital	22	26	3	15	20%
<b>Total Capital</b>	<b>\$ 46</b>	<b>\$ 66</b>	<b>\$ 20</b>	<b>\$ 75</b>	<b>27%</b>
<b>Financed by:</b>					
Proceeds from Dedicated Borrowings	\$ 10	\$ 25	\$ 1	\$ 50	2%
Operating Funds	36	41	19	25	76%
<b>Total</b>	<b>\$ 46</b>	<b>\$ 66</b>	<b>\$ 20</b>	<b>\$ 75</b>	<b>27%</b>
<b>Assets Financed Under New Operating Leases:</b>					
Commitments Beginning of Period	\$ 15	\$ 29	\$ 22	\$ 24	92%
New Commitments (Paydowns)	7	(7)	(2)	(8)	25%
<b>Commitments End of Period</b>	<b>\$ 22</b>	<b>\$ 22</b>	<b>\$ 20</b>	<b>\$ 16</b>	<b>125%</b>

- ◇ YTD Capital spending includes the following projects:
  - Honeywell Energy Project = \$3m
  - Burr Gymnasium Renovation = \$4m
  - Frazier Hall Renovation = \$3m
  - Cramton Auditorium Renovation = \$2m
  - Chemical Engineering Building Renovation = \$1m
  - Other Dorm/Class/Accreditation Renovation = \$1m
  - HU Equipment and Other = \$4m
  - HUH general equipment and Other = \$2m
- ◇ Capital activity has increased significantly since FY2011 on both bond and internally funded projects.

*Endowment investment portfolio is managed by approximately 70 investment fund managers.*

*Income and contributions are unlikely to offset amounts used in operations.*

**Returns**



*Investment balances continue to fluctuate with the capital markets.*

Total Financial Assets	
(\$ in millions)	September 2011
Cash	\$ 47
Operating Investments	40
Restricted Investments	30
Endowment Fund	426
Pension Fund	444
Insurance Trusts	8
Debt Service Fund	33
Unexpended bond proceeds	101
<b>Total on Balance Sheet</b>	<b>1,129</b>
403b Assets:	
(\$ in millions)	September 2011
TIAA-CREF	511
Valic	226
Lincoln	28
<b>Total 403b Assets</b>	<b>765</b>
<b>Total Fiduciary Assets</b>	<b>\$ 1,894</b>

***Portfolio is Designed to Achieve Long-Term Returns of at Least 8% (Inflation Adjusted)***

## ENDOWMENT INVESTMENTS

### Activity

(\$ in millions)	2010	2011	2012
Beginning balance	\$ 365	\$ 400	\$ 473
Income	7	6	1
Contributions	8	5	1
Used for operations	(15)	(14)	(13)
Appreciation/(depreciation)	35	76	(36)
<b>Ending balance</b>	<b>\$ 400</b>	<b>\$ 473</b>	<b>\$ 426</b>
Donor Restricted	\$ 212	\$ 250	\$ 226
Board Restricted	\$ 188	\$ 224	\$ 200

- ◇ Endowment investments decreased \$47m (10%) with a total negative return of \$35m (7%) - reflects weak capital market performance, during which time period the DJIA dropped 13%.
- ◇ Funds used for operations of \$13m represents the total available for FY2012 based on the endowment fund use-formula of 5% - a 7% reduction from FY2011.
- ◇ Board-restricted investments serve to further support liquidity and coverage covenants under bank/bond lending agreements, as long as assets are in liquid investment vehicles.

### Asset Classes

(\$ in millions)	2010		2011		2012	
	\$	% of Total	\$	% of Total	\$	% of Total
Money Market Instruments	\$ 15	3.8%	\$ 19	4.1%	\$ 8	2.0%
U.S. Treasury and Other Governments	29	7.3%	27	5.7%	26	6.1%
Bonds	76	19.0%	90	19.0%	91	21.4%
Stocks	125	31.3%	159	33.6%	130	30.5%
Hedge Funds	79	19.8%	84	17.8%	82	19.2%
Private Equity and Real Estate	76	19.0%	94	19.9%	89	20.9%
<b>Total</b>	<b>\$ 400</b>	<b>100.0%</b>	<b>\$ 473</b>	<b>100.0%</b>	<b>\$ 426</b>	<b>100.0%</b>

- ◇ Change in asset classes primarily reflects market depreciation and capital calls for partnerships and hedge funds.
- ◇ Committed but unfunded capital call obligations approximate \$37m at September 2011 - \$5m was called in Q1.
- ◇ Securities are valued under new accounting rules with all partnerships and hedge funds based largely on manager judgments; a large portion of the bond portfolio is based on similar marketable securities; all other investments are based on specific public market values.

## RETIREMENT PLANS

*Retiree obligations represent the largest single liability of Howard University.*

*Pension Plan frozen as of June 2010. All changes in funded status, except actuarial amortization are now recorded as non-operating expense.*

*Funded status of pension plan deteriorated by \$57m from FY2011*

*Enjoyed contribution holiday for past five years - made payment of \$20m into pension trust in September, will require a further \$10m in FY2012, and \$25m in FY2013 and FY2014.*

*Headcount levels are managed by cost center managers and reviewed regularly by Cabinet.*

*Institutional headcount is about 10% higher than Plan, including student workers - about 5% higher excluding students.*

***Planned Staff Reductions Did Not Fully Materialize to Offset Raises and Strategic Hires***

September 30, 2011 (\$ in millions)	Defined Benefit Pension Plan	Retiree Health/Life Plan	403b Savings Plan	Total
<b>Beginning of year:</b>				
Obligations	\$ (538)	\$ (185)	\$ -	\$ (723)
Assets	463	-	813	1,276
Funded status	(75)	(185)	813	553
Benefit payments	(7)	(3)	-	(10)
Howard contributions	20	2	6	28
Change in obligation	(38)	(10)	-	(48)
Change in assets	(32)	-	(48)	(80)
Annual earned rights	-	1	-	1
<b>End of year:</b>				
Obligations	(576)	(195)	-	(771)
Assets	444	-	765	1,209
Funded status	\$ (132)	\$ (195)	\$ 765	\$ 438
Change in funded status	\$ (57)	\$ (10)	\$ (48)	\$ (115)

- ◇ Funded status of pension plan deteriorated primarily as a result of asset depreciation, and the use of a lower discount rate.
- ◇ Pension plan assets reflect a 7% market decline (\$32m), offset by a \$20m contribution.
- ◇ Approximately \$6m was contributed into employee 403b savings plan accounts in Q1 - trending \$2m higher than FY2011 - reflecting the new automatic enrollment policy and added matching contributions.
- ◇ Health plan inflation rate assumption is 9% for FY2012.

## CENSUS - PEAK ACADEMIC YEAR

Employee Census	October FY2011	March FY2011	October FY2012	FY 2012 Plan
<b>HU Faculty</b>	<b>1,317</b>	<b>1,361</b>	<b>1,310</b>	<b>1,300</b>
<i>Full-Time Faculty</i>	814	836	837	--
<i>Part-Time Faculty</i>	503	525	473	--
<b>Graduate Assistants</b>	<b>543</b>	<b>707</b>	<b>549</b>	<b>550</b>
<b>HU Salaried Staff</b>	<b>2,062</b>	<b>2,071</b>	<b>2,021</b>	<b>1,800</b>
<b>HU Wage Staff</b>	<b>1,043</b>	<b>1,300</b>	<b>1,490</b>	<b>1,050</b>
<i>Student</i>	825	1,060	1,231	--
<i>Non- Student</i>	218	240	259	--
<b>Total HU Headcount</b>	<b>4,965</b>	<b>5,439</b>	<b>5,370</b>	<b>4,700</b>
HUH Physicians	49	47	29	25
HUH Staff	1,756	1,712	1,661	1,650
HUH Residency Program	264	262	277	265
<b>Total HUH FTEs</b>	<b>2,069</b>	<b>2,021</b>	<b>1,967</b>	<b>1,940</b>
<b>Total Institution</b>	<b>7,034</b>	<b>7,460</b>	<b>7,337</b>	<b>6,640</b>

- ◇ Employment costs, including benefits, are projected to run about \$20m over budget. The compensation over-run is currently allocated as - Health Sciences (\$10m), Academic Affairs (\$2m) and General Administration (\$8m).
- ◇ New hiring process requires Chief Talent Officer and Cabinet level approvals, as well

*Liquidity has been enhanced with the new \$135m credit facility executed in June 2011.*

### Principal Lenders

#### Three-year Bank Liquidity Facility:

Bank of America = \$74m

RBS Citizens = \$35m

SunTrust Bank = \$20m

City First Bank of DC = \$4m

Industrial Bank = \$2m

#### PNC Bank:

Private Placement Bond = \$10m

#### Macquarie/Grant Leases:

Capital = \$55m

Operating = \$15m

#### Hannon Armstrong Capital:

Chiller Plant Investor = \$23m

#### Public Bonds:

2011A = \$225m

2011B = \$65m

### Debt Covenants

#### Liquidity = Pass

51% vs. 35% requirement

#### Coverage = Pass

1.96 vs. 1.25 requirement

*FY2012 debt currently limited by lenders to: \$33m, lease facility and \$92m FY2011 Bond proceeds.*

*Projections will be monitored against operating performance.*

**Planned FY2012  
Cash Outflows  
Assume a Revised  
Plus \$15m  
Operating Result**

## LIQUIDITY

(\$ in millions)	2010	2011	2012
Cash	\$ 32	\$ 27	\$ 47
Operating Investments	38	44	40
Trust Deposits	37	49	41
Receivables	119	109	130
Payables	(103)	(95)	(95)
Unused Bond Proceeds	-	102	101
Unused Credit	25	130	100
<b>Total Liquidity Facilities</b>	<b>\$ 148</b>	<b>\$ 366</b>	<b>\$ 364</b>
<b>Liquidity as Measured by Lenders</b>	<b>\$ 296</b>	<b>\$ 415</b>	<b>\$ 389</b>
<b>% of Cash Expenses</b>	<b>38%</b>	<b>54%</b>	<b>51%</b>

- ◇ In August 2011, Board approved a new \$30m lease facility for medical and IT equipment with Grant Capital Management/Macquarie Equipment Finance/Bank of America.
- ◇ FY2011 Bond transactions and Credit Facility replaced Howard's debt covenants with a more contemporary debt service and less restrictive liquidity ratio.
- ◇ In FY2010 the Board approved the use of up to \$75m of endowment assets to support loans for operating cash needs if required.

## CASH FLOW PROJECTIONS

(\$ in millions)	FY2012					
	YTD	Q2	Q3	Q4	Outlook	Plan
<b>Net Operating Income</b>	\$ -	\$ 10	\$ 10	\$ (5)	\$ 15	\$ 30
Depreciation and amortization	15	15	15	15	60	63
Interest expense	6	4	4	4	18	18
Restricted revenue	(6)	(1)	(1)	-	(8)	(11)
<b>Cash Available for Debt Service</b>	<b>15</b>	<b>28</b>	<b>28</b>	<b>14</b>	<b>85</b>	<b>100</b>
Annual debt service	(6)	(6)	(6)	(7)	(25)	(25)
<b>Debt Service Coverage Ratio</b>	<b>250%</b>	<b>467%</b>	<b>467%</b>	<b>200%</b>	<b>280%</b>	<b>400%</b>
Purchases of property and equipment	(20)	(15)	(13)	(12)	(60)	(75)
Proceeds from dedicated borrowings	1	15	15	19	50	50
<b>Operating free cash flow</b>	<b>(4)</b>	<b>28</b>	<b>30</b>	<b>21</b>	<b>75</b>	<b>75</b>
Net line of credit borrowings	15	10	-	5	30	30
Investment activity, net	17	(3)	(2)	(2)	10	10
Restricted contributions and other	(3)	2	2	4	5	5
<b>Cash Flow After Financings and Investments</b>	<b>25</b>	<b>37</b>	<b>30</b>	<b>28</b>	<b>120</b>	<b>120</b>
Working capital changes (AR/AP/Other)	(38)	(10)	(26)	(10)	(84)	(60)
Changes in deferrals/trusts/other	53	(45)	53	(53)	8	8
Retirement expenses accrued	11	6	6	6	29	29
Retirement expenses paid	(10)	(10)	(10)	(10)	(40)	(45)
Pension plan contribution	(20)	(10)	-	-	(30)	(30)
Restructuring costs paid	(1)	(4)	(5)	(5)	(15)	(15)
<b>Net changes in cash</b>	<b>\$ 20</b>	<b>\$ (36)</b>	<b>\$ 48</b>	<b>\$ (44)</b>	<b>\$ (12)</b>	<b>\$ 7</b>
<b>Beginning cash</b>	<b>\$ 27</b>	<b>\$ 47</b>	<b>\$ 11</b>	<b>\$ 59</b>	<b>\$ 27</b>	<b>\$ 27</b>
<b>Ending cash</b>	<b>\$ 47</b>	<b>\$ 11</b>	<b>\$ 59</b>	<b>\$ 15</b>	<b>\$ 15</b>	<b>\$ 34</b>

- ◇ FY2012 assumes a \$30m payment (\$20m in Q1 and \$10m in Q2) into Howard's pension plan to satisfy the minimum funding requirement of 80%.
- ◇ New money bond issue spending has started in Q1 - approximately \$8m, with a full year \$50m projection.

**Bridges to Outlook**

<i>(Amounts in millions)</i>	
<b>Bridge from Prior Year to Plan</b>	
FY2011 Net	\$ 13
Tuition Rates	18
Workforce Reduction	25
Raises/New Hires	(10)
Lower G&A	4
Full Year Net Target	50
CFO Contingency	(20)
<b>FY2012 Operating Plan</b>	<b>\$ 30</b>
<b>Bridge to FY2012 Outlook</b>	
Higher Compensation	(20)
Higher Professional Services	(5)
Lower Patient/Investment Revenue	(10)
Use of CFO Contingency	20
<b>FY2012 Outlook</b>	<b>\$ 15</b>

<i>(Amounts in millions)</i>	
<b>Bridge from Run Rate to Outlook</b>	
Unfavorable Run-Rate vs Plan	\$ 50
Lower expected new hires / raises	(5)
Lower contracted services	(5)
Lower professional services	(5)
Adjusted Run Rate Variance	35
Use of CFO Contingency	(20)
<b>FY2012 Operating Outlook</b>	<b>\$ 15</b>

*Outlook reflects the delay in implementing functional integration, higher spend for campus improvement projects and lower patient revenue.*

*FY2012 Plan reflects the amounts necessary to pay all maturing debts and satisfy lender liquidity requirements with no deterioration in current cash.*

***CFO Contingency Fully Allocated - No Remaining Cushion***

**FY2012 OUTLOOK**

<i>(\$ in millions)</i>	FY2010 Actual	FY2011 Actual	FY2012 YTD	FY2012 Outlook	FY2012 Plan
Academic Services	\$ 248	\$ 265	\$ 65	\$ 285	\$ 285
Clinical Services	276	291	69	284	289
Public Support	286	281	74	267	272
<b>Operating Revenues</b>	<b>810</b>	<b>837</b>	<b>208</b>	<b>836</b>	<b>846</b>
Academic Services	376	395	97	396	377
Clinical Services	279	287	70	275	279
Institutional Support	151	142	41	150	140
<b>Operating Expenses</b>	<b>806</b>	<b>824</b>	<b>208</b>	<b>821</b>	<b>796</b>
CFO Contingency	-	-	-	-	(20)
<b>Operating Income (Loss)</b>	<b>\$ 4</b>	<b>\$ 13</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ 30</b>
Cash Available for Debt Service	\$ 66	\$ 80	\$ 15	\$ 85	\$ 100
Capital investments	\$ 46	\$ 66	\$ 20	\$ 60	\$ 75

- ◇ **Academic Services Revenue**—Expected to be on Plan as new tuition and fee rate increases have materialized (blended 11% increase), with a similar discount rate as in FY2011. Grant revenue is anticipated to be in line with FY2011, as initiatives to enhance current backlog are implemented. *[Outlook Comment: No change to Plan at this time.]*
- ◇ **Clinical Services Revenue**—Expected to be lower than Plan and prior year, driven by lower volumes, primarily inpatient, in the Hospital. *[Outlook Comment: Potential upside if volume and other revenue enhancement initiatives materialize. Challenging Healthcare regulatory environment will also need to be managed.]*
- ◇ **Public Support Revenue**—\$10m anticipated reduction in the federal appropriation and lower than planned investment income is expected to be partially offset with higher donor contributions. *[Outlook Comment: Off Plan, but potential upside depending on capital market performance and donor support.]*
- ◇ **Total Operating Expenses**—Plan assumed a rollback of compensation costs to FY2011 budgeted levels and lowering administrative services. *[Outlook Comment: Rollback of compensation fell short of target by \$20m, with a further \$10m projected over-run in non-employment costs - primarily in interest expense, and professional/administrative/contracted operational services. Service delivery and work execution model needs to be refined.]*
- ◇ **Net Operating Income (Expense)** - \$30m positive result committed for FY2012 has been downwardly revised to \$15m, based on current facts and plan. *[Outlook Comment: Cushion is exhausted, with additional risk to achieving a committed result - management actions are required.]*



# GRANTS AND CONTRACTS ACCOUNTABILITY REPORT

(\$ in thousands)

**Top 10 PIs (based on YTD2012 revenue):**

- Dr. H. Scott = \$756
- Dr. R.E. Taylor = \$668
- Dr. T. Mellman = \$645
- Dr. D. Smoot = \$580
- Dr. E. Joseph = \$562
- Dr. R. Jenkins = \$544
- Dr. V. Morris = \$529
- Dr. R. Green = \$525
- Dr. S. Arhin = \$498
- Dr. V. Gordeuk = \$491

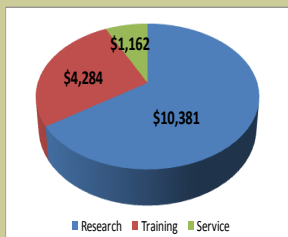
**Total = \$5,798 -  
37% of Revenue**

**Top 10 Sponsors (based on YTD12 revenue):**

- NIH = \$3,232
- NSF = \$1,556
- DC Gov = \$1,358
- Dept of Ed = \$1,049
- Dept of HHS = \$889
- Dept of State = \$755
- NASA = \$614
- G'town Univ = \$537
- NOAA = \$517
- Family Health Int'l = \$397

**Total = \$10,904 -  
69% of Revenue**

**YTD REVENUE BY TYPE**



September 2011

THREE MONTHS—FY2012

## Revenue and Profitability Analysis

(\$ in thousands)	FY2009	FY2010	FY2011	FY2012		
				YTD	Plan	% of Plan
Research	\$ 36,454	\$ 34,580	\$ 37,530	\$ 10,381	\$ 36,729	28%
Training	15,860	17,471	18,659	4,284	16,343	26%
Service	7,983	9,141	5,233	1,162	7,928	15%
<b>Total Revenue</b>	<b>60,297</b>	<b>61,192</b>	<b>61,422</b>	<b>15,827</b>	<b>61,000</b>	<b>26%</b>
Incremental Direct Costs <sup>(a)</sup>	(25,933)	(27,115)	(26,010)	(6,774)	(25,537)	27%
Cost of Research Administration	(3,000)	(3,000)	(3,000)	(1,000)	(4,000)	25%
<b>Contribution Profit to Howard</b>	<b>\$ 31,364</b>	<b>\$ 31,077</b>	<b>\$ 32,412</b>	<b>\$ 8,053</b>	<b>\$ 31,463</b>	<b>26%</b>
Direct Costs Billed to Sponsors	\$ 51,866	\$ 54,230	\$ 52,019	\$ 13,548	\$ 49,073	28%
Indirect Cost Recovery from Sponsors	8,431	6,962	9,403	2,279	11,927	19%
Indirect cost recovery as a % of direct costs	16%	13%	18%	17%	24%	(7%)
Contribution profit as % of revenue	52%	51%	53%	51%	52%	(1%)
<b>Submissions:</b>						
Number (#)	431	416	447	107	440	24%
Amount (\$)	\$ 168,245	\$ 108,175	\$ 118,922	\$ 29,117	\$ 125,000	23%
<b>Awards:</b>						
New (#)	107	122	140	32	160	20%
Amount (\$)	\$ 19,973	\$ 21,389	\$ 23,755	\$ 9,193	\$ 28,000	33%
Continuations (#)	116	140	126	43	145	30%
Amount (\$)	\$ 35,229	\$ 36,888	\$ 32,682	\$ 12,027	\$ 39,000	31%
<b>TOTAL #</b>	<b>223</b>	<b>262</b>	<b>266</b>	<b>75</b>	<b>305</b>	<b>25%</b>
<b>TOTAL \$</b>	<b>\$ 55,202</b>	<b>\$ 58,277</b>	<b>\$ 56,437</b>	<b>\$ 21,220</b>	<b>\$ 67,000</b>	<b>32%</b>
Win Rate - # <sup>(b)</sup>	NA	61%	62%	17%	68%	NA
Win Rate - \$ <sup>(b)</sup>	NA	35%	34%	18%	56%	NA
Cash collected	\$ 52,716	\$ 66,648	\$ 64,448	\$ 15,871	\$ 65,000	24%

(a) The total of costs to: 1) third parties (vendors, sub-recipients, students, participants in training courses, etc.); 2) staff who would not be employed except for a specific project; and 3) "backfill" costs for investigators release time from normal duties. All other costs would have been incurred with or without grant and contract revenue.

(b) Awards as a percentage of prior year submissions.

## Highlights

- ◇ G&C revenue has started strong for the year, ending the quarter slightly ahead of Plan.
- ◇ New awards are several percentage points ahead of Plan and backlog.
- ◇ Total direct costs have averaged about 86% of revenue, which is consistent with the prior year. Since about half represent incremental costs, the contribution margin (new revenue less new costs) for Howard exceeds 50%.
- ◇ Howard's contracts are mostly "cost-plus with a cap" - requiring completeness of personnel effort and regular monitoring of profitability to satisfy contract and accounting requirements.
- ◇ Howard's approved Federal indirect cost recovery rate is 48% of direct costs - however that rate is almost never achieved as direct costs often absorb much of the revenue cap. In addition, most all training and service contracts specify lower indirect cost recovery rates.