

Financial Results for Fiscal Year Ended June 30, 2011

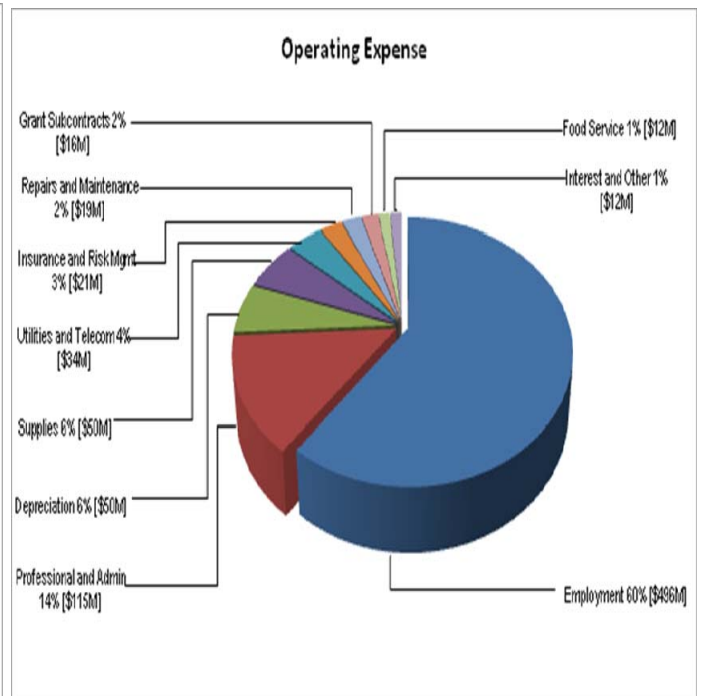
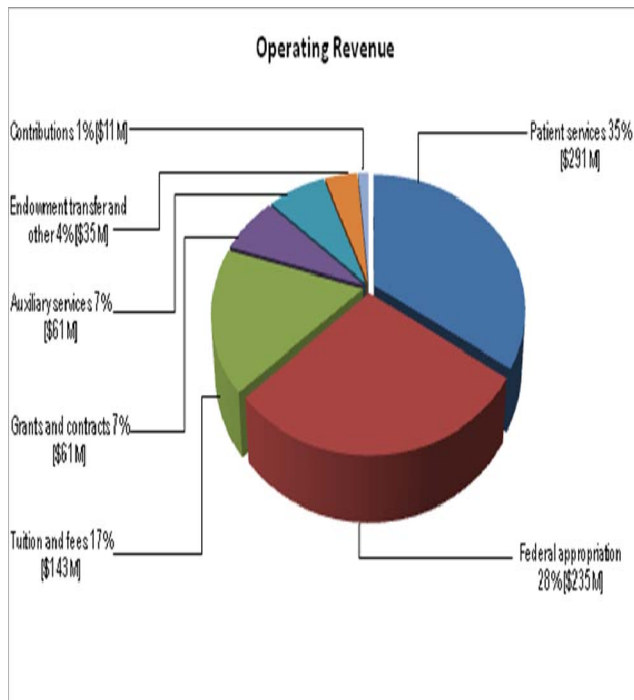
Overview

FY2011 was a **transformational year** in Howard's recent history – reestablishing financial stability and flexibility while delivering a \$13 million positive operating result – \$9 million improvement over FY2010. Net assets increased by \$134 million to a total of \$608 million, driven by solid operating results and strong capital market appreciation. Howard's balance sheet was also repositioned to support both long and short term financial needs through the restructuring and augmentation of long-term public debt (\$300 million) and the execution of a multi-bank three-year line of credit (\$135 million).

Operating Results

Howard's **operating revenues** grew by 3% to \$837 million, a \$27 million increase over FY2010 - indicative of a healthy demand for Howard's academic and clinical services. Academic Services revenue was 7% higher than in FY2010, as an increase of \$17 million was realized from tuition and fee rate adjustments, while enrollment levels mirrored the prior year. Clinical Services revenue was 5% higher than FY2010, as the Faculty medical practices and Hospital generated net revenue increases of 14% and 4% respectively, owing to a combination of volume growth and improved pricing. The Hospital provided \$52 million of service value under its charity care program, which has been excluded from revenue. Public Support revenue decreased marginally from FY2010, as an aggregated \$5 million reduction in private support was only partially offset by higher investment income reported in operations. Howard's Federal appropriation was stable at \$235 million and consistent with the past several years.

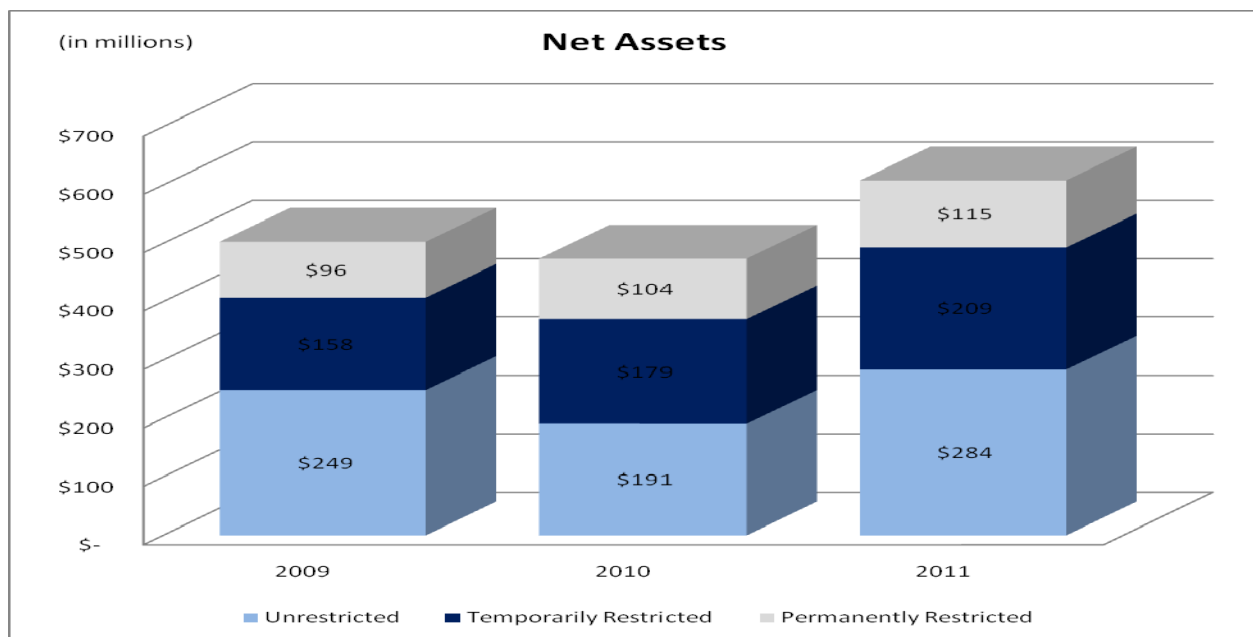
Howard's **operating expenses** grew by 2% to \$824 million, an \$18 million increase over FY2010. This increase was largely attributable to compensation investments in the academic units and higher costs to procure medical supplies, partially offset by lower grant subcontractor and insurance costs. Managing Howard's de-centralized cost structure was enhanced in FY2011 under a general manager model that focuses accountabilities on three divisional portfolios – Academic Affairs, Health Sciences and General Administration. Each division is made up of 10-12 operating units such as Schools, Colleges, clinical units and/or administrative functions.



Howard's **operating cash flow available for debt service** improved by 16% to \$77 million, providing debt service coverage in excess of three times that required under lender agreements. As of June 30, 2011 Howard had \$331 million of debt outstanding, and maintained an A3 (negative) and A- (stable) credit rating from Moody's Investor Services and Standard & Poors, respectively. Cash flow generated from operations was used to settle old payables, pay down short-term borrowings (\$15 million), fund malpractice settlements (\$14 million) and purchase fixed assets (\$41 million). In addition, **liquidity** totaled \$415 million at year-end, a 40% improvement over FY2010, which reflects operating and investing appreciation that enhanced both financial stability and flexibility.

Net Assets

Net assets increased by \$134 million to \$608 million as of June 30, 2011. This increase includes a \$13 million positive operating result, \$76 million of positive returns and appreciation on investment portfolios, and a \$57 million positive true-up of retirement plan and other liabilities, offset by a \$12 million loss on the debt extinguishment. The debt extinguishment loss represents the accounting write-off of deferred costs associated with the refunded bonds.



Investments and the Endowment

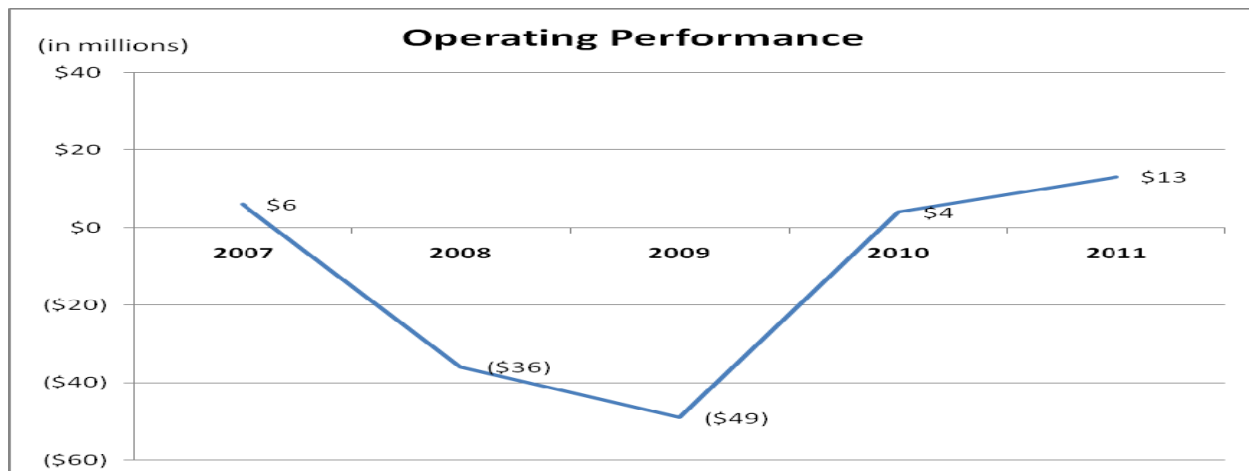
As of June 30, 2011 Howard had \$1 billion of **investments** under management, including pension assets. Investments are managed in a diversified portfolio aligned with the cash requirements and investment allocation strategy of the institution.

The market value of the Howard's endowment increased by \$73 million over FY2010 to \$473 million. This growth was driven by strong capital market performance, generating a total return of 19%. Total new endowed contributions of \$5 million and endowed investment income of \$7 million, was more than offset by \$14 million of assets made available to support operations, primarily student financial aid. Approximately 50% of the endowment is governed by donor restrictions, while the remaining 50% is available for Board designation. The market value of the pension fund was \$463 million, generating a 13% return in FY2011. Howard's pension plan was frozen in June, 2010 and remains under-funded by \$75 million as of June 30, 2011.

Three-Year Operating Performance

Statements of Activities For Fiscal Years Ended June 30, 2009, 2010 and 2011 (in thousands)	2009	2010	2011
Students enrolled (Fall Headcount)	10,733	10,537	10,594
Patients serviced	258,229	282,944	335,348
Operating Revenues:			
Academic services:			
Tuition and fees, net	\$ 129,000	\$ 124,848	\$ 143,398
Grants and contracts	60,297	61,192	61,422
Auxiliary services	56,934	62,151	61,135
Clinical services:			
Patient service - Hospital	239,172	245,478	255,641
Patient service - Faculty medical practice	23,932	28,540	32,518
Patient service - Dental clinic	1,687	1,935	1,764
Public support:			
Federal appropriation	231,081	231,411	231,073
Contributions and investments designated for current operations	14,887	19,161	20,337
Other income and net assets released from restrictions	19,653	30,747	26,318
Total unrestricted operating revenue	776,643	805,463	833,606
Total temporarily restricted operating revenue	4,771	1,748	1,804
Total permanently restricted operating revenue	3,050	3,087	2,045
Total operating revenues	784,464	810,298	837,455
Operating Expenses:			
Instruction	228,884	211,611	214,949
Patient care	262,938	278,795	287,164
Research	32,384	34,673	34,433
Academic Services:			
Public service	10,255	9,135	9,856
Academic support	34,823	28,586	38,827
Student services	25,723	23,009	23,525
Auxiliary enterprises	69,702	69,452	73,183
Institutional support	169,010	150,782	142,400
Total operating expenses	833,719	806,043	824,337
Operating revenues over (under) operating expenses	(49,255)	4,255	13,118
Investment income/(loss) in excess of amount designated for operations	(51,232)	14,541	38,187
Restructuring costs	(22,649)	(3,025)	(516)
Change in funded status of defined benefit pension plan	(124,964)	(52,634)	61,424
Change in obligation for post-retirement benefit plan	(27,388)	(6,868)	5,953
Loss on extinguishment of debt	--	--	(11,695)
Change in value of interest rate swap, net	(2,162)	(1,621)	1,873
Other items, net	13,115	(7,619)	(11,809)
Total unrestricted non-operating income and expenses	(215,280)	(57,226)	83,417
Total temporarily restricted non-operating income and expenses, net	(44,728)	18,998	28,702
Total permanently restricted non-operating income and expenses, net	(4,888)	5,309	8,745
Total non-operating income and expenses	(264,896)	(32,919)	120,864
Unrestricted	(272,356)	(57,806)	92,686
Temporarily restricted	(39,957)	20,746	30,506
Permanently restricted	(1,838)	8,396	10,790
Change in net assets	\$ (314,151)	\$ (28,664)	\$ 133,982
Total net assets, beginning of year	\$ 816,736	\$ 502,585	\$ 473,921
Total net assets, end of year	\$ 502,585	\$ 473,921	\$ 607,903

The continued improvement of **operating performance** in FY2011 was the result of disciplined management of administrative costs – down \$8 million from a year ago, and \$27 million from two years ago. Howard experienced operating losses of \$36 million and \$49 million in FY2008 and FY2009 respectively, with a return to profitability in FY2010 and FY2011 of \$4 million and \$13 million, respectively. Howard has committed to more effective, efficient and accountable management, using automation and improved business processes to enhance service delivery while containing costs. During FY2011, Howard leadership focused on accountabilities and developed goals and metrics centered on four strategic themes - academic/clinical quality, research expansion, financial sustainability, and service effectiveness. The results of this transition are beginning to be reflected in Howard’s operating results.



Particularly critical to the turnaround in operating performance was, and continues to be, management discipline around employment costs, which account for 60% of Howard’s operating expenses. In June 2009 the University implemented a voluntary retirement incentive plan, which resulted in about 340 staff departures. In June 2010 and continued during FY2011, the Hospital executed a similar program, with over 200 staff participating. However, employment costs, driven by raises and headcount primarily in the academic units have largely offset the employment cost reductions realized in prior years. Accordingly, in FY2012, management is re-focusing on reducing the entity’s employment cost structure, and as well as the cost of outside services, by implementing an internal expert service model.

Financial Management and Administrative Operations

Howard has upgraded and modernized its financial management and administrative operations. Under new leadership, the objective is to provide sophisticated financial and administrative services to all Howard stakeholders - lenders, contributors, volunteers, patients, students, parents, faculty, physicians and staff. The approach is to manage Howard as an integrated enterprise, capitalizing on efficiency and effectiveness opportunities by avoiding duplication, automating currently manual processes, reducing paper documentation, eliminating service glitches, and empowering stakeholders. Financial discipline around revenue generation and expense control is being driven through clear accountabilities and regular reporting. Howard is now being managed by goals and objectives, instead of cost budgets.

Audited Financial Statements

Consistent with prior years, Howard has received an unqualified opinion from its independent auditors. This opinion signifies that the financial statements of Howard are fairly presented in all material respects. Such financial statements can be found at <http://www.howard.edu/financialservices>