



TREASURER'S REPORT

June 2011

JUNE FY2011 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Highlights

- ▶ FY2011 was a transformational year in Howard's recent history – re-establishing financial stability and flexibility – and delivering an operating result of plus \$13m versus \$4m last year and a Plan of \$30m.
- ▶ Howard's balance sheet was repositioned to support long-term and short-term financial needs through the restructuring and augmentation of long-term public debt (\$300m) and the execution of a multi-bank three-year line of credit (\$135m) – each with more contemporary legal terms and covenants.
- ▶ Operating revenue increased 3% to \$837m—which was \$7m short of Plan but \$27m higher than last year. Budget shortfalls in grants and contributions were largely offset by higher prices for student tuition/fees and increases in patient revenue from volume in the faculty practice and per-case rates at the hospital. This is an indication of healthy demand for Howard's services in an uncertain economy. Grant awards during FY2011 totaled \$56m – about 3% behind last year, with the current back-log about \$3m lower than a year ago.
- ▶ Operating expenses came in at \$824m, which is \$30m over Plan, and \$18m higher than last year, with the budget miss attributable to \$16m in excess employment costs equally distributed between the two academic units and \$14m in higher non-employment costs mainly in medical supplies and administrative services. Controlling expenses was a challenge as spending authority continued to be distributed across far too many units and headcount was not managed as expected in the Plan.
- ▶ Relative to FY2010, Academic Affairs performed better by \$4m; General Administration performed better by \$6m; and Health Sciences performed worse by \$1m. This profile is consistent with how the divisions were tracking since the first quarter of the fiscal year.
- ▶ Non-operating items include investment appreciation of \$76m, lower retirement and other obligations of \$57m and a bond extinguishment loss of \$12m which, after adding operations of \$13m, increased net assets by \$139m.
- ▶ Cash flow available for debt service was positive by \$80m - a 21% improvement over prior year and coverage ratio of 3.35:1 against a 1.25:1 bank covenant.
- ▶ Liquidity facilities total approximately \$415m, a \$120m improvement over FY2010, driven by capital market appreciation and operating results—yielding a 54% coverage of cash expenses against a 35% bank covenant.
- ▶ Outlook for FY2012 reflects the allocation of the \$20m CFO contingency to absorb currently expected compensation and administrative cost overruns.

ACADEMIC EXCELLENCE ♦ TOP TIER RESEARCH
FINANCIALLY SUSTAINABLE ♦ SUPPORT COMMUNITIES
SYSTEMS THAT WORK ♦ APPEALING ENVIRONMENT

TREASURER'S REPORT

June 2011

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Public Bonds

Trading Value:

At 06/30/10 = \$0.99-\$1.13

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

Credit Ratings:

Moody's = A3 (negative)

S&P = A- (stable)

Top 10 Bond Holders

American Money	\$16m
Hartford	\$10m
PNC	\$10m
Travelers Co.	\$6m
Standish Mellon	\$5m
GE Asset	\$3m
Multiple Managing	\$2m
Conning Asset	\$1m
Farm Bureau	\$1m
Wells Capital	\$1m

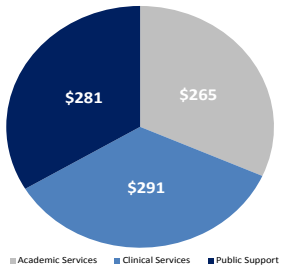
SUMMARY RESULTS—AS OF JUNE 2011

Summary Financial Results					
(\$ in millions)	FY2009	FY2010	FY2011		
	Actual	Actual	Actual	Plan	% of Plan
Academic Services	\$ 246	\$ 248	\$ 265	\$ 277	96%
Clinical Services	265	276	291	277	105%
Public Support	274	286	281	290	97%
Total Operating Revenues	785	810	837	844	99%
Academic Services	402	376	395	372	106%
Clinical Services	263	279	287	272	106%
Institutional Support	169	151	142	150	95%
Total Operating Expenses	834	806	824	794	104%
CFO Contingency	-	-	-	(20)	NM
Operating Income (Loss)	(49)	4	13	30	43%
Non-Operating Income (Loss)	(265)	(33)	121	-	NM
Change in Net Assets	\$ (314)	\$ (29)	\$ 134	\$ 30	447%

- ◇ **Academic Services Revenue**—which includes tuition, fees, grants and auxiliaries - was below Plan, but 7% higher than FY2010. Tuition and fees were \$214m gross and \$143m net, reflecting increases in Board-approved rates, offset by higher financial aid. Grant revenue of \$61m was below Plan by \$14m, and about even with last year. Auxiliary Services revenue at \$60m was in line with Plan.
- ◇ **Clinical Services Revenue**—which includes the hospital, faculty practice and dental clinic - exceeded Plan with higher FPP revenue (14% better than last year) driven by volume, and HUH revenue about equal to Plan on a 2% decline in admissions.
- ◇ **Public Support Revenue**—which includes the federal appropriation, private contributions and investments designated for current operations, other income and endowment transfer - was below Plan as higher investment income was offset by lower private contributions and other income.
- ◇ **Operating Expenses**—\$30m over Plan (2% over FY2010) due to higher compensation (raises and headcount) in the academic units, and general spending; offset by lower grant subcontracts and insurance. Expenses for Clinical Services and Institutional Support each came in higher than Plan and about even with prior year.
- ◇ **Operating Income**—\$13m mainly reflects the \$14m annual endowment transfer and a \$1m unfavorable core operating result.
- ◇ **Change in Net Assets**— reflects operating results plus \$76m of positive returns and appreciation on investment portfolios, and a \$57m positive true-up of retirement plan liabilities reflecting strong asset performance, offset by a \$12m loss on debt extinguishment.

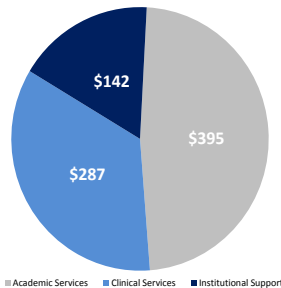
Revenue was off Plan by less than 1% with higher tuition, FPP revenue and investment income offset by lower grant and contribution revenue.

Revenue Mix



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

Cost Mix



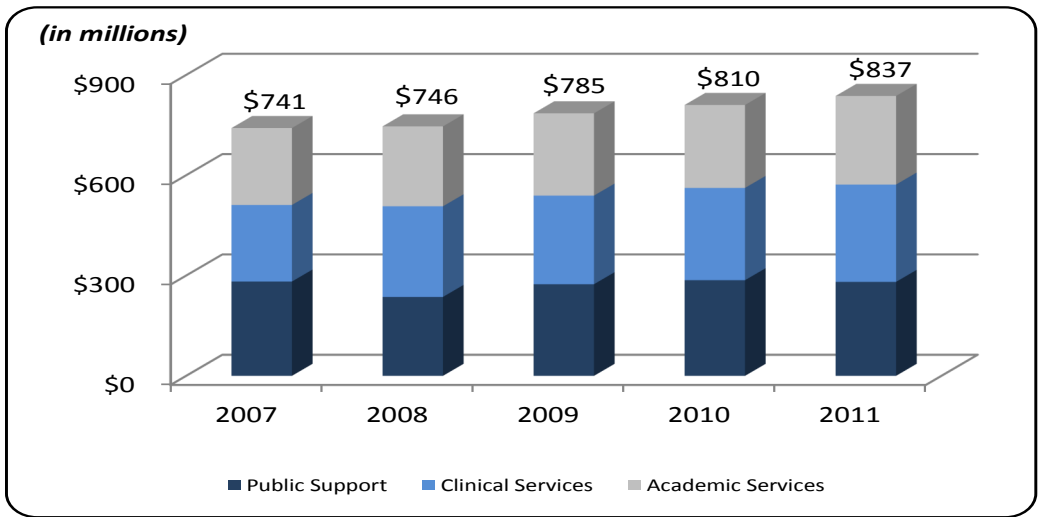
Profitability

Total for FY2011 reflects \$14m for the annual endowment transfer. Otherwise, loss from operations was \$1m toward a Plan commitment of positive \$16m.

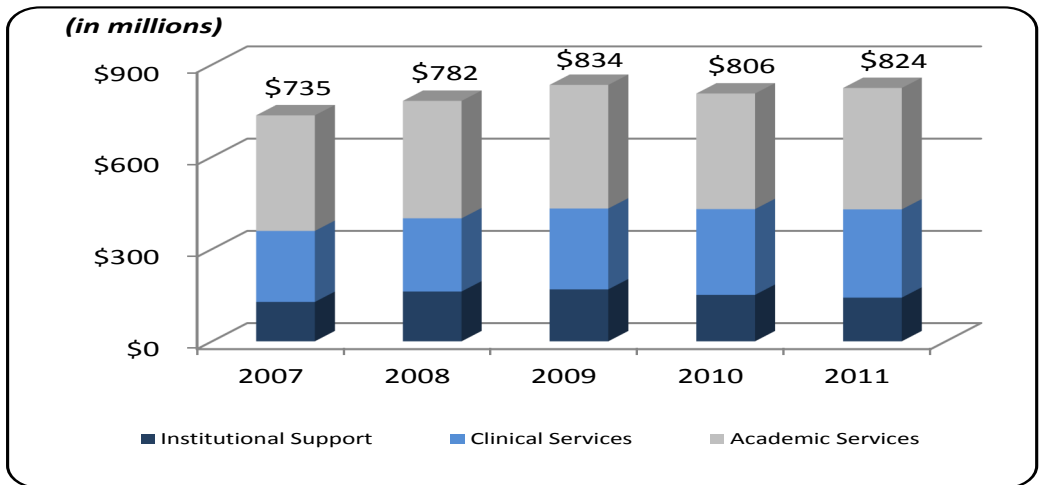
Best Operating Result in Five Years - Led by Higher Revenue

OPERATING TRENDS

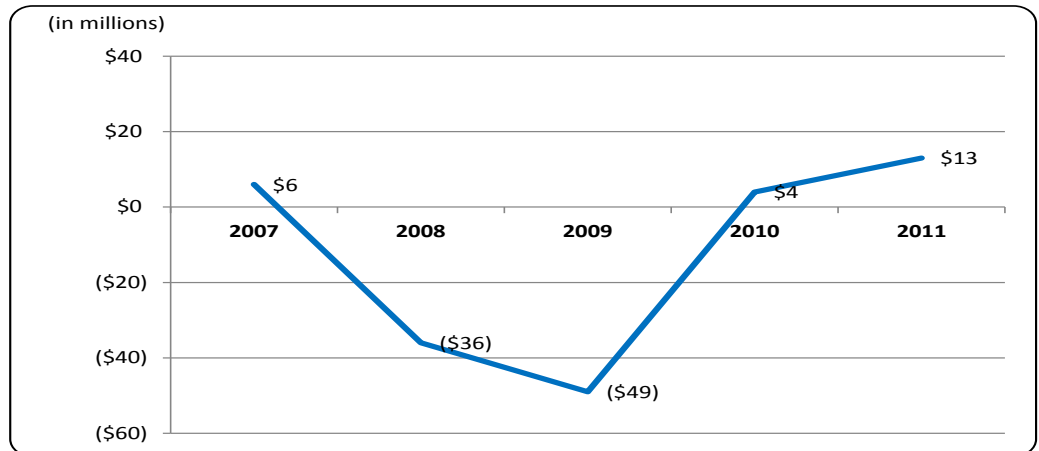
Revenue by Service Line - Average Rate of Growth = 3% through FY2011.



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



Operating Profit (Loss)



Financial Comparisons vs. Prior Fiscal Year

Operating Revenue	% of Prior Year
Health Sciences	106%
Academic Affairs	105%
General Administration	101%
Operating Expenses	% of Prior Year
Health Sciences	105%
Academic Affairs	102%
General Administration	98%

Key metrics were favorable or in line with prior year but unfavorable to Plan, especially expenses.

Management actions implemented to mitigate FY2011 challenges were slow to materialize.

Student/Faculty Ratio

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

Faculty Pay per Student

FY2011 = \$11,334
FY2010 = \$10,377
FY2009 = \$ 9,857

Focused on process discipline and results accountability.

Recorded Operating Result of \$13m Against a \$30m Commitment

OPERATING DIVISIONS—ACCOUNTABILITY MATRIX

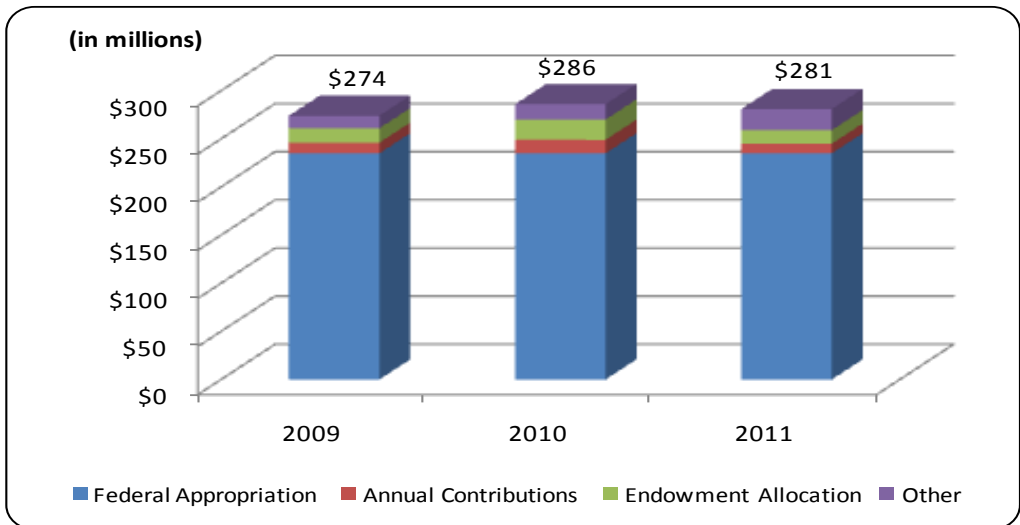
	Health Sciences	Academic Affairs	General Administration	FY2011 Actual	FY2011 Plan	FY2011 YTD % of Plan
<i>(in thousands)</i>						
Number of Patients Served	335,348	-	-	335,348	339,500	99%
Number of Students Enrolled (FTEs)	1,768	7,677	-	9,445	9,500	99%
OPERATING REVENUES						
Gross Tuition	\$ 38,964	\$ 160,834	\$ -	\$ 199,798	\$ 197,000	101%
Less Financial Aid	(5,576)	(65,344)	-	(70,920)	(70,000)	101%
Net Tuition	33,388	95,490	-	128,878	127,000	101%
Student Fees	7,232	718	6,571	14,521	13,000	112%
Net Tuition and Fees	40,620	96,208	6,571	143,399	140,000	102%
Grants and Contracts - Direct Costs	24,430	23,472	4,117	52,019	65,000	80%
Grants and Contracts - Indirect Costs	6,415	2,981	7	9,403	10,000	94%
Total Grants and Contracts	30,845	26,453	4,124	61,422	75,000	82%
Contributions and Other	9,746	5,857	31,305	46,908	57,600	81%
Auxiliary Services	-	-	61,135	61,135	59,400	103%
Gross Patient Service	758,153	-	-	758,153	716,000	106%
Less Contractuals	(386,195)	-	-	(386,195)	(360,000)	107%
Less Charity Care	(51,658)	-	-	(51,658)	(51,000)	101%
Less Bad Debt	(30,377)	-	-	(30,377)	(28,000)	108%
Net Patient Service	289,923	-	-	289,923	277,000	105%
TOTAL OPERATING REVENUES	371,134	128,518	103,135	602,787	609,000	99%
<i>Prior Year Revenues</i>	351,253	121,826	102,242	575,321	NM	NM
OPERATING EXPENSES						
Compensation - Faculty/Physicians	74,464	60,367	-	134,831	127,000	106%
Compensation - Staff/Administrators	145,478	31,549	69,385	246,412	243,000	101%
Employee Benefits	67,768	26,559	20,219	114,546	110,000	104%
Total employment expenses	287,710	118,475	89,604	495,789	480,000	103%
Utilities and Telecommunications	7,982	-	25,830	33,812	34,000	99%
Medical and Office Supplies	43,025	2,792	3,970	49,787	40,000	124%
Repairs and Maintenance	6,899	-	12,034	18,933	16,000	118%
Food Service Costs	3,050	530	8,002	11,582	10,000	116%
Grant Subcontracts	4,327	11,202	492	16,021	29,000	55%
Travel and Conferences	2,157	1,794	2,157	6,108	5,000	122%
Insurance and Risk Management	18,337	2	2,948	21,287	25,000	85%
Events and Ceremonies	442	856	931	2,229	3,000	74%
Audit and Compliance	189	8	3,710	3,907	2,000	195%
Professional and Administrative Services	44,049	8,271	50,655	102,975	89,000	116%
Provision for Bad Debts	293	-	265	558	-	0%
Interest Expense	2,767	-	8,123	10,890	9,000	121%
Depreciation	13,161	-	37,299	50,460	52,000	97%
Total non-employment expenses	146,678	25,455	156,416	328,549	314,000	105%
TOTAL OPERATING EXPENSES	434,388	143,930	246,020	824,338	794,000	104%
REVENUES less EXPENSES	\$ (63,254)	\$ (15,412)	\$ (142,885)	\$ (221,551)	\$ (185,000)	120%
<i>Prior Year Expenses</i>	413,257	141,698	251,088	806,043	NM	NM
Operating Plan	\$ (52,000)	\$ (13,000)	\$ (120,000)	\$ (185,000)	NM	NM
% of Operating Plan	122%	119%	119%	120%	NM	NM
Prior Year	\$ (62,004)	\$ (19,875)	\$ (148,843)	\$ (230,722)	NM	NM
% of Prior Year	102%	78%	96%	96%	NM	NM

CHALLENGES AND OBSERVATIONS

- ◇ **Health Sciences** —FY2011 loss was higher than Plan and prior year due to: 1) a shortfall in research revenue as activity levels did not meet Plan expectations; 2) higher compensation costs of faculty, physicians and staff; and 3) offset by higher revenue from FPP, lower grant subcontract and insurance costs. HUH operating result was in line with Plan.
- ◇ **Academic Affairs** —FY2011 loss is higher than Plan, but lower than prior year due to higher net tuition/fees from an average 12% increase in rates, offset by lower than planned research revenue and higher compensation costs.
- ◇ **General Administration** —FY2011 loss is higher than Plan, but lower than prior year due to higher-than-planned costs for maintenance and for administrative services. Higher than planned investment income was not sufficient to offset lower contributions.

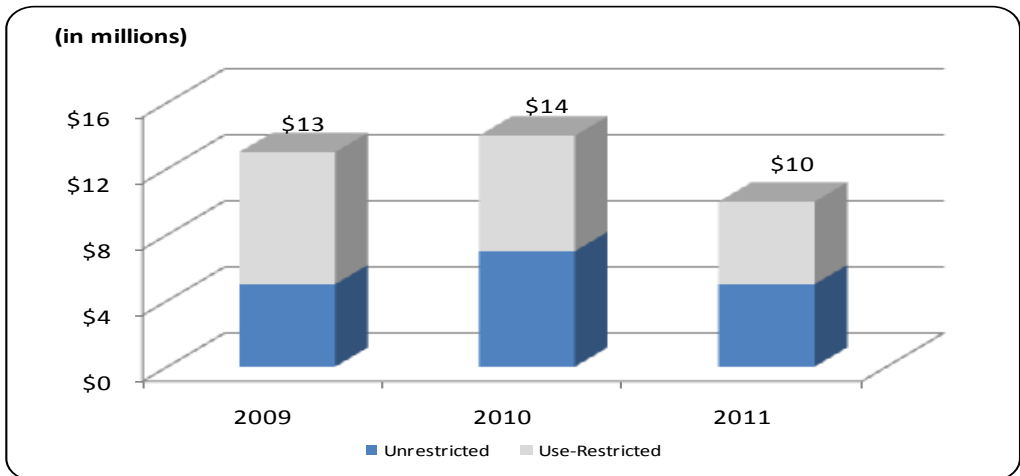
PUBLIC SUPPORT

All Sources



- ◇ Federal appropriation disbursements were unpredictable in FY2011 due to a protracted budget cycle in US Congress - placed stress on liquidity during the year.
- ◇ Contribution revenue totaled \$10m for FY2011 lower than Plan of \$26m, and \$14m in prior year.
- ◇ Endowment allocation = 5% of rolling three year balances in Donor and Board restricted endowments.

Donor Gifts



- ◇ About 55% of total contributions were use-restricted.
- ◇ \$10m in contributions fell short of Plan and prior year by \$16m and \$4m, respectively. Health Sciences raised \$1m against a budget of \$8m; Academic Affairs raised \$6m against a budget of \$6m; and General Administration raised \$3m against a budget of \$12m.
- ◇ Fundraising costs were approximately \$5m, compared to \$6m in the prior year.

Federal appropriation has been constant over past several years. However, a \$500k reduction occurred in FY2011, with an anticipated \$10m reduction in FY2012.

FY2011 investment income increased by \$40m (75%) compared to prior year. \$16m is reflected in operations.

FY2011 Endowment allocation was \$14m a 6% reduction from the prior year.

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

FY2011 gifts:

- > \$1m = 0
- > \$100k = 10
- > \$50k = 14

New contributions with use-restrictions fall short of annual endowment monies withdrawn for operations by about 60%.

**Challenge is to
Maintain Federal
Appropriation and to
Attract New Public
Support**

CASH FLOW

(\$ in millions)	FY2009	FY2010	FY2011		
	Actual	Actual	Actual	Plan	% of Plan
Net Operating Income (Expense)	\$ (49)	\$ 4	\$ 13	\$ 30	43%
Depreciation	46	50	50	52	
Amortization	5	8	10	12	
Interest expense	7	9	11	9	
Restricted revenue	(8)	(5)	(4)	(3)	
Cash Available for Debt Service	1	66	80	100	80%
Annual debt service	(20)	(20)	(23)	(20)	
Debt Service Coverage Ratio	(5%)	330%	348%	500%	
Purchases of property and equipment	(63)	(46)	(66)	(100)	
Proceeds from dedicated borrowings	12	10	25	51	
Operating free cash flow	(50)	30	39	51	76%
Net line of credit borrowings	13	(2)	7	(13)	
Investment activity, net	(3)	14	(26)	10	
Restricted contributions and other	(3)	(3)	(8)	5	
Cash Flow After Financings and Investments	(43)	39	12	53	23%
Working capital changes (AR/AP)	8	(42)	(36)	(37)	
Changes in deferrals/trusts/other	45	24	7	11	
Retirement expenses accrued	36	38	46	18	
Retirement expenses paid	(33)	(37)	(31)	(35)	
Restructuring costs paid	-	(23)	(3)	-	
Net changes in cash	\$ 13	\$ (1)	\$ (5)	\$ 10	(50%)
Cash - beginning	20	33	32	40	
Cash - end	\$ 33	\$ 32	\$ 27	\$ 50	54%

Sources/Uses of Cash ▶

FY2011 cash flow details generally better than last year but short of Plan.

FY2011 liquidity was supplemented with available lines of credit. \$20m of the \$135m syndicated credit facility was obligated at year end.

Debt Service Cash Flow ▶

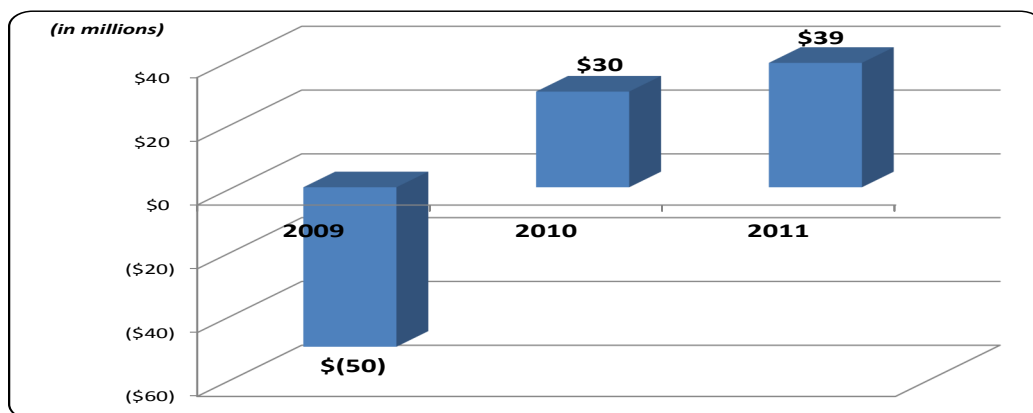
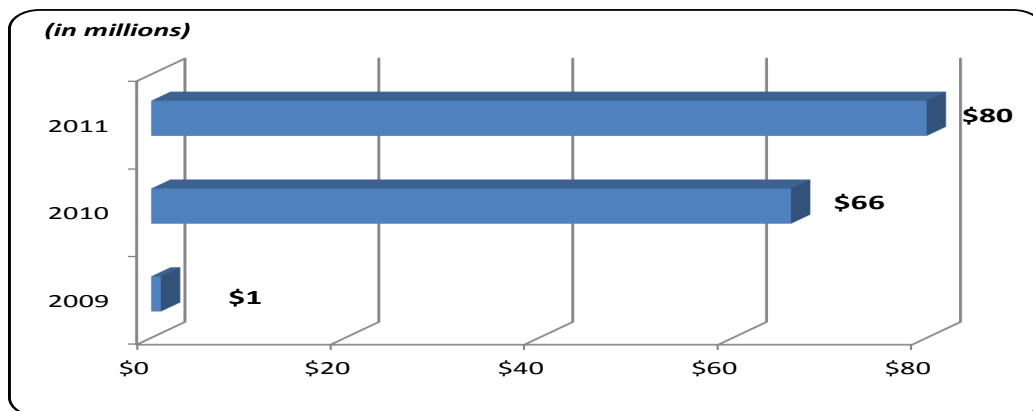
\$80m of positive cash available for debt service.

Cash was used to settle old payables, pay down \$15m of short term debt, fund \$14m in malpractice claims and fund \$41m of fixed assets.

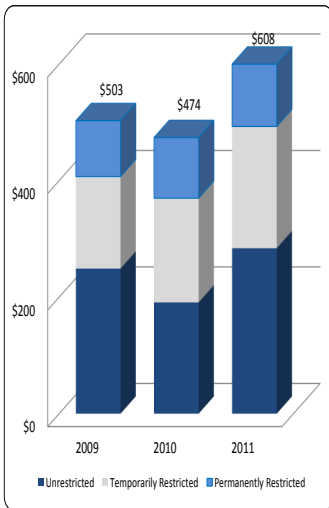
Operating Free Cash Flow ▶

Cash flow after deducting self-financed capital additions - positive by \$39m.

Focused on Cash Generation As Well As Operating Returns



Total By Use-Restriction



Major Projects	
(Amounts in millions)	FY2011 Budget
Chiller Plant	\$ 23
Renovations	12
Energy Upgrade	9
IT Infrastructure Upgrade	9
Deferred Maintenance	9
HUH Cath Lab	7
Electronic Health Records	7
Labs/Research Infrastructure	6
General Repairs	5
Surgical Training Lab	4
HUH Renovations	3
ADA Compliance	2
Security Technology	2
Library Materials	2
Total Capital Budget	\$ 100

“Extreme Makeover Projects” have begun with anticipated completion for most projects by late Q2 FY2012 - \$32m of planned spend.

Managed Capital Based on Priorities and Strategic Goals

NET ASSETS

(\$ in millions)	FY2009	FY2010	FY2011
Beginning of Period	817	\$ 503	\$ 474
Operating Income (Loss)	(49)	4	13
Investment Income (Loss)	(101)	39	76
Pension Plan	(125)	(53)	61
Retiree Health/Life	(27)	(7)	6
Other	(12)	(12)	(22)
End of Period	503	\$ 474	\$ 608

- ◇ In addition to operating income, net assets were positively impacted by investment returns and the true-up of retiree liabilities.
- ◇ Investment income reflects strong equity market performance yielding a total return of approximately 21% for the endowment (see page 8 for further analysis).
- ◇ Each retirement obligation was reduced marginally, as the interest rate environment was unchanged from FY2010 - thus the applicable discount rate used was consistent in both periods.
- ◇ Other reflects the recorded \$12m loss on extinguishment of old debt as deferred costs were written off.

CAPITAL INVESTMENTS AND COMMITMENTS

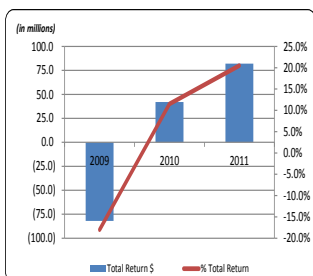
(\$ in millions)	FY2009 Actual	FY2010 Actual	FY2011		
			Actual	Plan	% of Plan
University	\$ 48	\$ 24	\$ 40	\$ 60	67%
Hospital	15	22	26	40	65%
Total Capital	\$ 63	\$ 46	\$ 66	\$ 100	66%
Financed by:					
Proceeds from Dedicated Borrowings	\$ 12	\$ 10	\$ 25	\$ 51	49%
Operating Funds	51	36	41	49	84%
Total	\$ 63	\$ 46	\$ 66	\$ 100	66%
Assets Financed Under New Operating Leases:					
Commitments Beginning of Period	\$ 21	\$ 15	\$ 22	\$ 24	92%
New Commitments (Paydowns)	(6)	7	(7)	(8)	88%
Commitments End of Period	\$ 15	\$ 22	\$ 15	\$ 16	94%

- ◇ FY2011 Capital spending included the following projects:
 - IT infrastructure upgrade = \$13m
 - HUH Chiller plant = \$10m
 - HUH Medical equipment = \$7m
 - Honeywell Energy Project = \$7m
 - Research equipment = \$2m
 - Dorm/Class/Accreditation Renovation = \$4m
 - Deferred maintenance one critical repair = \$2m
 - HU equipment and other = \$11m
 - HUH general equipment and other = \$8m
 - College of Medicine Upgrade = \$2m
- ◇ Capital spending was below budget by 34% primarily due to: (1) the significant lead time required to prepare for and execute major projects, including obtaining building permits; and (2) re-scoping of projects to reduce costs.

\$45m of investment portfolio was previously required to support two bank liquidity facilities - not needed under new agreements.

Income and contributions which have been relatively consistent and more-or-less offset amounts used in operations - fell short by 21% in FY2011.

Returns



Investment balances continue to fluctuate with the capital markets.

Total Financial Assets	
(\$ in millions)	June 2011
Cash	\$ 27
Operating Investments	44
Restricted Investments	33
Endowment Fund	473
Pension Fund	463
Insurance Trusts	16
Debt Service Fund	33
Unexpended bond proceeds	102
Total on Balance Sheet	1,191
403b Assets:	
(\$ in millions)	June 2011
TIAA-CREF	542
Valic	240
Lincoln	30
Total 403b Assets	812
Total Fiduciary Assets	\$ 2,003

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

ENDOWMENT INVESTMENTS

Activity

(\$ in millions)	2009	2010	2011
Beginning balance	\$ 454	\$ 365	\$ 400
Income	9	7	6
Contributions	7	8	5
Used for operations	(14)	(15)	(14)
Appreciation/(depreciation)	(91)	35	76
Ending balance	\$ 365	\$ 400	\$ 473
Donor Restricted	\$ 190	\$ 212	\$ 250
Board Restricted	\$ 175	\$ 188	\$ 224

- ◇ Endowment investments increased \$73m (18%) with a total return of \$82m (21%) reflecting strong capital market performance.
- ◇ Funds used for operations represent the total available for FY2011 based on the endowment fund use-formula of 5%.
- ◇ Growth in Board-restricted investments serves 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)	June 2009		June 2010		June 2011	
	\$	% of Total	\$	% of Total	\$	% of Total
Money Market Instruments	\$ 15	4.1%	\$ 15	3.8%	\$ 19	4.1%
U.S. Treasury and Other Governments	7	1.9%	29	7.3%	27	5.7%
Bonds	94	25.8%	76	19.0%	90	19.0%
Stocks	122	33.4%	125	31.3%	159	33.6%
Hedge Funds	65	17.8%	79	19.8%	84	17.8%
Private Equity and Real Estate	62	17.0%	76	19.0%	94	19.9%
Total	\$ 365	100.0%	\$ 400	100.0%	\$ 473	100.0%

- ◇ Change in asset classes primarily reflects market appreciation and capital calls for partnerships and hedge funds.
- ◇ Committed but unfunded capital call obligations approximate \$42m at June 2011.
- ◇ 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.

Retiree obligations represent the largest single liability of Howard University.

Pension Plan frozen as of June 2010. All changes in funded status now recorded as non-operating for management reporting.

Funded status of pension plan improved by \$59m as FY2011 asset return is approximately 13%.

Enjoyed contribution holiday for past five years - will need to make payment of \$30m into pension trust beginning in FY2012, and \$25m in FY2013 and FY2014.

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

Institutional headcount was about 10% higher than planned.

Staff Reductions Did Not Materialize to Offset Raises and Strategic Hires

RETIREMENT PLANS

June 30, 2011 (\$ in millions)	Defined Benefit Pension Plan	Retiree Health/Life Plan	403b Savings Plan	Total
Beginning of year:				
Obligations	\$ (544)	\$ (183)	\$ -	\$ (727)
Assets	410	-	742	1,152
Funded status	(134)	(183)	742	425
Benefit payments	(26)	(13)	-	(39)
Howard contributions	-	9	22	31
Change in obligation	6	2	-	8
Change in assets	79	-	49	128
Annual earned rights	-	4	-	4
End of year:				
Obligations	(538)	(181)	-	(719)
Assets	463	-	813	1,276
Funded status	\$ (75)	\$ (181)	\$ 813	\$ 557
Change in funded status	\$ 59	\$ 2	\$ 71	\$ 132

- ◇ Funded status of pension plan improved primarily as a result of asset appreciation.
- ◇ Pension plan assets performed relatively well with a 13% increase.
- ◇ Approximately \$22m was contributed into employees 403b savings plan accounts in FY2011 - double the contribution in FY2010 - reflecting the new automatic enrollment policy and added matching contributions.
- ◇ Health plan inflation rate assumption is 9% for FY2011.

CENSUS - PEAK ACADEMIC YEAR

As of Period End March	2009	2010	2011	FY 2011 Plan
HU Faculty	1,287	1,271	1,361	1,300
Full-Time Faculty	775	781	836	
Part-Time Faculty	512	490	525	
HU Salaried Staff	2,280	1,997	2,071	1,800
Total HU Headcount	3,567	3,268	3,432	3,100
HUH Physicians	55	68	63	68
HUH Staff	1,727	1,818	1,704	1,574
HUH Residency Program	246	261	251	258
Total HUH FTEs	2,028	2,147	2,018	1,900
Total Institution	5,595	5,415	5,450	5,000

- ◇ Above schedule excludes temporary employees, graduate assistants and students. Those employment categories would add up to 2,300 +/- to the census total.
- ◇ Employment costs, including benefits, ran about \$17m over budget.
- ◇ Full-Time Faculty increased by 6% and 10% respectively in Academic Affairs and Health Sciences between FY2009 and FY2011.
- ◇ Part-Time Faculty increased by 2% and 8% respectively in Academic Affairs and Health Sciences between FY2009 and FY2011.
- ◇ Salaried Staff decreased by 9% between FY2009 and FY2011, with the largest reductions in Finance (25%), Operations (15%) and Other Administration (3%).
- ◇ Over 1,500 students, including graduate assistants, were employed and paid \$9m.

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 = \$25m

Operating = \$15m

Hannon Armstrong Capital:

Chiller Plant Investor = \$23m

Public Bonds:

2011A = \$225m

2011B = \$65m

Debt Covenants

Liquidity = Pass

54% vs. 35% requirement

Coverage = Pass

3.35 vs. 1.25 requirement

FY2012 debt currently limited by lenders to: \$3m lease facility and \$100m FY2011 Bond proceeds.

Projections will be monitored against operating performance.

**Planned FY2012
Cash Outflows
Assume a \$30m
Operating Profit**

LIQUIDITY

(\$ in millions)	2009	2010	2011
Cash	\$ 33	\$ 32	\$ 27
Operating Investments	44	38	44
Trust Deposits	40	37	49
Receivables	112	119	109
Payables	(135)	(103)	(95)
Unused Bond Proceeds	3	-	102
Unused Credit	9	25	130
Total Liquidity Facilities	\$ 106	\$ 148	\$ 366
Liquidity as Measured by Lenders	\$ 343	\$ 296	\$ 415
% of Cash Expenses	42%	38%	54%

- ◇ In FY2011 new loans of \$135m were entered into:
 - \$10m in August from a Private Placement Bond purchased by PNC Bank.
 - \$10m advance for chiller plant from Hannon Armstrong Capital - secured by plant assets.
 - \$15m lease from Macquarie/Grant - secured by IT and medical equipment.
 - \$100m in April from FY2011 Bond Deal
- ◇ In FY2010 the Board approved the use of up to \$75m of endowment assets to support loans for operating cash needs if required.
- ◇ FY2011 Bond transactions and Credit Facility replaced Howard's debt covenants with a more contemporary debt service and less restrictive liquidity ratio.

CASH FLOW PROJECTIONS

(\$ in millions)	Q1	Q2	Q3	Q4	Outlook
Net Operating Income	\$ 20	\$ 8	\$ 8	\$ (6)	\$ 30
Depreciation and amortization	15	15	15	15	60
Interest expense	2	2	3	3	10
Cash Available for Debt Service	37	25	26	12	100
Annual debt service	(7)	(7)	(8)	(8)	(30)
Debt Service Coverage Ratio	529%	357%	325%	150%	333%
Purchases of property and equipment	(19)	(19)	(19)	(18)	(75)
Proceeds from dedicated borrowings	13	12	12	13	50
Operating free cash flow	31	18	19	7	75
Net line of credit borrowings	4	4	3	19	30
Investment activity, net	2	3	2	3	10
Restricted contributions and other	1	1	1	2	5
Cash Flow After Financings and Investments	38	26	25	31	120
Working capital changes (AR/AP)	(23)	(13)	(16)	(10)	(62)
Changes in deferrals/trusts/other	2	2	2	2	8
Retirement expenses accrued	8	8	8	8	32
Retirement expenses paid	(15)	(22)	(15)	(23)	(75)
Restructuring costs paid	(5)	(10)	-	(15)	(30)
Net changes in cash	\$ 5	\$ (9)	\$ 4	\$ (7)	\$ (7)
Beginning cash	\$ 27	\$ 32	\$ 23	\$ 27	\$ 27
Ending cash	\$ 32	\$ 23	\$ 27	\$ 20	\$ 20

- ◇ FY2012 assumes a \$30m payment (\$15m in Q1 and Q3) into Howard's pension plan to satisfy minimum funding requirements.
- ◇ New money bond issue spending to start in late Q1 FY2012.

FY2012 OUTLOOK

Bridges

<i>(Amounts in millions)</i>	
Bridge from Prior to Current Year	
FY2010 Operating Result	\$ 4
Higher Tuition Revenue	19
Higher Clinical Revenue	13
Lower Public Support	(4)
Higher Employment Costs	(14)
Higher G&A Costs	(5)
FY2011 Operating Result	\$ 13
Bridge to FY2012 Outlook	
FY 2012 Plan	30
Higher Employment Costs	(10)
Higher Campus Improvement Costs	(10)
Use of CFO Contingency	20
FY2012 Outlook	\$ 30

Outlook reflects the delay in implementing functional integration and higher spend for campus improvement projects.

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 to Absorb Higher Costs

<i>(\$ in millions)</i>	FY2010 Actual	FY2011 Actual	FY2012 Plan	FY2012 Outlook
Academic Services	\$ 248	\$ 265	\$ 285	\$ 285
Clinical Services	276	291	289	289
Public Support	286	281	272	272
Operating Revenues	810	837	846	846
Academic Services	376	395	377	397
Clinical Services	279	287	279	279
Institutional Support	151	142	140	140
Operating Expenses	806	824	796	816
CFO Contingency	-	-	(20)	-
Operating Income (Loss)	\$ 4	\$ 13	\$ 30	\$ 30
Cash Available for Debt Service	\$ 66	\$ 80	\$ 100	\$ 100
Capital investments	\$ 46	\$ 66	\$ 75	\$ 75

- ◇ **Academic Services Revenue**—Expected to be higher than FY2011 as new tuition and fee rate increases are enacted (blended 12% increase), with same 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 within 1% of FY2011. HUH and FPP are expected to manage revenue and costs at close to FY2011 levels - taking new Healthcare Regulation into consideration. **[Outlook Comment: No change to Plan at this time.]**
- ◇ **Public Support Revenue**—\$10m anticipated reduction in the federal appropriation is expected to be partially offset with higher donor contributions. **[Outlook Comment: No change to Plan at this time.]**
- ◇ **Total Operating Expenses**—Plan assumes a rollback of compensation costs to FY2011 budgeted levels and lowering administrative services. **[Outlook Comment: Rollback of compensation is likely to be \$10m short of budget and spend on campus improvement projects likely to be \$10m higher than budget - thus absorbing the CFO Contingency.]**
- ◇ **Net Operating Income (Expense)** - Committed to a \$30m positive result for FY2012, which will be monitored quarterly as events develop. **[Outlook Comment: On target at this time, but cushion is exhausted.]**



(\$ in thousands)

Top 10 PIs (based on FY2011 revenue):

- Dr. A. Wutoh = \$3,081
- Dr. D. Smoot = \$2,714
- Dr. V. Morris = \$2,600
- Dr. T. Mellman = \$2,598
- Dr. R.E. Taylor = \$2,491
- Dr. R. Green = \$2,360
- Dr. H. Scott = \$2,358
- Dr. V. Gordeuk = \$1,799
- Dr. E. Joseph = \$1,652
- Dr. R. Jenkins = \$1,507

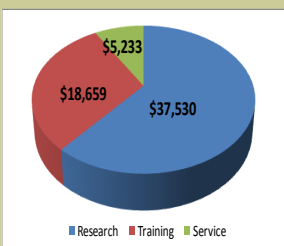
Total = \$23,160 - 38% of Revenue

Top 10 Sponsors (based on FY2011 revenue):

- NIH = \$14,147
- Dept of HHS = \$8,168
- Dept of Ed = \$4,751
- NSF = \$4,505
- DC Gov = \$4,374
- Family Health Int'l = \$2,836
- NOAA = \$2,427
- Dept of State = \$2,346
- G'town Univ = \$2,150
- NASA = \$1,514

Total = \$47,218 - 77% of Revenue

FULL YEAR REVENUE BY TYPE



GRANTS & CONTRACTS ACCOUNTABILITY REPORT

June 2011

TWELVE MONTHS—FY2011

Revenue and Profitability Analysis

(\$ in thousands)	FY2009	FY2010	FY2011		
			Actual	Plan	% of Plan
Research	\$ 36,454	\$ 34,580	\$ 37,530	\$ 45,000	83%
Training	15,860	17,471	18,659	20,000	93%
Service	7,983	9,141	5,233	10,000	52%
Total Revenue	60,297	61,192	61,422	75,000	82%
Incremental Direct Costs ^(a)	(25,933)	(27,115)	(26,010)	(32,500)	80%
Cost of Research Administration	(3,000)	(3,000)	(3,000)	(3,000)	100%
Contribution Profit to Howard	\$ 31,364	\$ 31,077	\$ 32,412	\$ 39,500	82%
Direct Costs Billed to Sponsors	\$ 51,866	\$ 54,230	\$ 52,019	\$ 65,000	80%
Indirect Cost Recovery from Sponsors	8,431	6,962	9,403	10,000	94%
Indirect cost recovery as a % of direct costs	16%	13%	18%	15%	NA
Contribution profit as % of revenue	52%	51%	53%	53%	NA
Submissions:					
Number (#)	431	416	447	NA	NA
Amount (\$)	\$ 168,245	\$ 108,175	\$ 118,922	NA	NA
Awards:					
New (#)	107	122	140	NA	NA
Amount (\$)	\$ 19,973	\$ 21,389	\$ 23,755	NA	NA
Continuations (#)	116	140	126	NA	NA
Amount (\$)	\$ 35,229	\$ 36,888	\$ 32,682	NA	NA
TOTAL #	223	262	266	NA	NA
TOTAL \$	\$ 55,202	\$ 58,277	\$ 56,437	NA	NA
Win Rate - # ^(b)	NA	61%	64%	NA	NA
Win Rate - \$ ^(b)	NA	35%	52%	NA	NA
Cash collected	\$ 52,716	\$ 66,648	\$ 64,448	\$ 75,000	86%

(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 remained relatively constant over the past three years.
- ◇ Awards have also remained relatively constant but backlog going into FY2012 is off 5% from a year ago (\$54m vs. \$57m).
- ◇ Total direct costs have averaged about 85% of revenue, lower by about 4 percentage points than prior years. Since only about half represent incremental costs, the contribution margin (new revenue less new costs) for Howard was 53% for FY2011.
- ◇ 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. In June, \$0.2m was added to revenue for effort certified by faculty that had not yet been captured by the G&C accounting system.
- ◇ 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. Better contract management and negotiations have increased the recovery rate in FY2011 to 18% on average, up 5 percentage points.

Financial Comparisons vs. Prior Fiscal Year

Operating Revenue	% of Prior Year
Dentistry	104%
Allied Health	106%
Medicine	106%
Total Health Sciences Revenue	106%
Operating Expenses	% of Prior Year
Dentistry	109%
Allied Health	128%
Medicine	104%
Total Health Sciences Expenses	105%

CHALLENGES

*Strategic =
Integration and Pricing*

*Operational =
Compensation and Quality*

Strong patient service revenue was insufficient to offset \$10m grant revenue shortfall.

Full year operating result is off Plan by 23%, but in line with prior year.

Student/Faculty Ratio Net Tuition/Student

Dentistry = 3/1; \$22,536
 Allied Health = 10/1; \$14,130
 Medicine = 2/1; \$26,318
 Health Sciences = 4/1; \$18,884

Higher Revenue Was More Than Offset by Higher Costs

HEALTH SCIENCES—ACCOUNTABILITY MATRIX

	Dentistry	Allied Health	Medicine	FY2011		
				Actual	Plan	% of Plan
<i>(in thousands)</i>						
Number of Patients Served	19,300	-	316,048	335,348	339,500	99%
Number of Students Enrolled (FTEs)	349	970	449	1,768	1,750	101%
OPERATING REVENUES						
Gross Tuition	\$ 9,253	\$ 15,990	\$ 13,721	\$ 38,964	\$ 42,000	93%
Less Financial Aid	(1,388)	(2,284)	(1,904)	(5,576)	(6,000)	93%
Net Tuition	7,865	13,706	11,817	33,388	36,000	93%
Student Fees	188	270	6,774	7,232	6,000	121%
Net Tuition and Fees	8,053	13,976	18,591	40,620	42,000	97%
Grants and Contracts - Direct Costs	1,545	6,361	16,524	24,430	34,000	72%
Grants and Contracts - Indirect Costs	122	1,104	5,189	6,415	6,000	107%
Total Grants and Contracts	1,667	7,465	21,713	30,845	40,000	77%
Contributions and Other	76	551	9,119	9,746	17,000	57%
Auxiliary Services	-	-	-	-	-	NM
Net Patient Service - Hospital	-	-	255,641	255,641	256,000	100%
Net Patient Service - Faculty Practice Plan	-	-	32,518	32,518	18,000	181%
Net Patient Service - Dental Clinic	1,764	-	-	1,764	3,000	59%
Total Net Patient Service	1,764	-	288,159	289,923	277,000	105%
TOTAL OPERATING REVENUES	11,560	21,992	337,582	371,134	376,000	99%
Prior Year Revenues	11,103	20,689	319,461	351,253	NM	NM
OPERATING EXPENSES						
Compensation - Faculty/Physicians	6,335	7,685	60,444	74,464	72,000	103%
Compensation - Staff/Administrators	2,599	2,130	140,749	145,478	145,000	100%
Employee Benefits	2,582	2,837	62,350	67,769	63,000	108%
Total employment expenses	11,516	12,652	263,544	287,712	280,000	103%
Utilities and Telecommunications	-	-	7,982	7,982	9,000	89%
Medical and Office Supplies	723	1,493	40,809	43,026	34,300	125%
Repairs and Maintenance	-	-	6,899	6,899	8,000	86%
Food Service Costs	30	31	2,989	3,050	2,000	152%
Grant Subcontracts	1,036	1,285	2,006	4,327	8,000	54%
Travel and Conferences	143	724	1,290	2,156	2,000	108%
Insurance and Risk Management	-	17	18,318	18,335	19,500	94%
Events and Ceremonies	44	80	318	442	-	NM
Audit and Compliance	-	-	189	189	500	38%
Professional and Administrative Services	504	1,795	41,750	44,049	46,200	95%
Provision for Bad Debts	-	-	293	293	-	0%
Interest Expense	-	-	2,767	2,767	1,500	184%
Depreciation	-	-	13,161	13,161	17,000	77%
Total non-employment expenses	2,480	5,425	138,771	146,676	148,000	99%
TOTAL OPERATING EXPENSES	13,996	18,077	402,315	434,388	428,000	101%
REVENUES less EXPENSES	\$ (2,436)	\$ 3,915	\$ (64,734)	\$ (63,254)	\$ (52,000)	122%
Prior Year Expenses	12,806	14,163	386,288	413,257	NM	NM
Operating Plan	\$ 2,000	\$ 2,200	\$ (56,200)	\$ (52,000)	NM	NM
% of Operating Plan	(122%)	178%	115%	122%	NM	NM
Prior Year	\$ (1,703)	\$ 6,526	\$ (66,827)	\$ (62,004)	NM	NM
% of Prior Year	143%	60%	97%	102%	NM	NM

CHALLENGES AND OBSERVATIONS

- ◇ **Dentistry** - includes College of Dentistry and Dental Clinic – Loss was higher than Plan and prior year mainly due to lower than expected grant revenue; patient revenue also higher than Plan; costs were not adjusted for lower revenue.
- ◇ **Allied Health** - includes Colleges of Pharmacy, Nursing and Allied Health Sciences - Performed better than Plan, but lower than prior year. Revenue exceeded Plan by 26% due to higher enrollment and grant revenue; costs were managed to budget.
- ◇ **Medicine** - includes College of Medicine, Cornwell Initiative, Library, Student Health, SVP Office, Hospital and FPP - (this large group shares many costs and revenue streams and, accordingly, its results are only meaningful when viewed collectively) - Loss was higher than Plan, but lower than prior year, as higher FPP revenue was not sufficient to offset lower grant revenue; costs were not adjusted for lower overall revenue.

Financial Comparisons vs. Prior Fiscal Year

Operating Revenue	% of Prior Year
COM	111%
Clinical	104%
Support	149%
Total Medicine Revenue	106%
Operating Expenses	% of Prior Year
COM	99%
Clinical	98%
Support	338%
Total Medicine Expenses	104%

CHALLENGES

Strategic =

COM pricing structure and graduation rates should be examined.

Operational =

Costs have increased ahead of expected revenue - need to close gap.

Full year operating result is 16% off Plan but in line with prior year. Spending was not curtailed as anticipated and grant revenue did not materialize.

14% growth in FPP net revenue was offset by higher administrative costs.

HUH Admissions

This Year/Last Year

- Medicine = 6,649 vs. 7,417
- Surgery = 1,965 vs. 1,832
- Family Practice = 1,072 vs. 991
- OBGYN = 1,060 vs. 995
- Psychiatry = 814 vs. 685
- Nursery = 753 vs. 668
- Pediatrics = 324 vs. 404
- Neurology = 232 vs. 209
- Oral Surgery = 107 vs. 81
- Ophthalmology 3 vs. 3

Financial Challenges Continue to be Most Acute for this Group

MEDICINE—ACCOUNTABILITY MATRIX

	College of Medicine	Clinical Services		Admin/Support	FY2011		
		HUH	FPP		Actual	Plan	% of Plan
<i>(In thousands)</i>							
Number of Patients Served	-	201,874	114,174	-	316,048	299,500	106%
Number of Students Enrolled (FTEs)	449	-	-	-	449	465	97%
OPERATING REVENUES							
Gross Tuition	\$ 13,721	\$ -	\$ -	\$ -	\$ 13,721	\$ 18,000	76%
Less Financial Aid	(1,904)	-	-	-	(1,904)	(2,500)	76%
Net Tuition	11,817	-	-	-	11,817	15,500	76%
Student Fees	466	-	-	6,308	6,774	5,900	115%
Net Tuition and Fees	12,283	-	-	6,308	18,591	21,400	87%
Grants and Contracts - Direct Costs	16,524	-	-	-	16,524	26,000	64%
Grants and Contracts - Indirect Costs	5,189	-	-	-	5,189	5,200	100%
Total Grants and Contracts	21,713	-	-	-	21,713	31,200	70%
Contributions and Other	639	8,464	(1)	17	9,119	15,000	61%
Auxiliary Services	-	-	-	-	-	-	NM
Gross Patient Service	-	662,966	93,423	-	756,389	713,000	106%
Less Contractuals	-	(333,575)	(52,620)	-	(386,195)	(360,000)	107%
Less Charity	-	(51,658)	-	-	(51,658)	(51,000)	101%
Less Bad Debt	-	(22,092)	(8,285)	-	(30,377)	(28,000)	108%
Net Patient Service	-	255,641	32,518	-	288,159	274,000	105%
TOTAL OPERATING REVENUES	34,635	264,105	32,517	6,325	337,582	341,600	99%
Prior Year Revenues	31,291	255,942	27,976	4,252	319,461	NM	NM
OPERATING EXPENSES							
Compensation - Faculty/Physicians	24,802	19,944	5,276	10,422	60,444	49,700	122%
Compensation - Staff/Administrators	10,865	113,450	9,841	6,593	140,749	150,200	94%
Employee Benefits	10,308	42,711	4,369	4,962	62,350	56,300	111%
Total employment expenses	45,975	176,105	19,486	21,978	263,544	256,200	103%
Utilities and Telecommunications	-	7,982	-	-	7,982	7,000	114%
Medical and Office Supplies	1,651	36,832	1,469	857	40,809	36,800	111%
Repairs and Maintenance	-	6,899	-	-	6,899	5,000	138%
Food Service Costs	87	2,877	7	18	2,989	3,900	77%
Grant Subcontracts	2,001	-	-	5	2,006	6,000	33%
Travel and Conferences	507	455	23	305	1,290	1,800	72%
Insurance and Risk Management	201	9,025	3,672	5,420	18,318	22,000	83%
Events and Ceremonies	252	-	29	37	318	-	NM
Audit and Compliance	3	186	-	-	189	1,000	19%
Professional and Administrative Services	2,310	30,173	6,825	2,442	41,750	44,100	95%
Provision for Bad Debts	-	293	-	-	293	-	0%
Interest Expense	-	2,767	-	-	2,767	2,000	138%
Depreciation	-	13,161	-	-	13,161	12,000	110%
Total non-employment expenses	7,012	110,650	12,025	9,084	138,771	141,600	98%
TOTAL OPERATING EXPENSES	52,987	286,755	31,511	31,062	402,315	397,800	101%
REVENUES less EXPENSES	\$ (18,352)	\$ (22,650)	\$ 1,006	\$ (24,737)	\$ (64,734)	\$ (56,200)	115%
Prior Year Expenses	\$ 53,645	\$ 281,645	\$ 33,817	\$ 17,181	\$ 386,288		
Operating Plan	\$ (14,900)	\$ (24,600)	\$ 500	\$ (17,200)	\$ (56,200)	NM	NM
% of Operating Plan	123%	92%	201%	144%	115%	NM	NM
Prior Year	\$ (22,354)	\$ (25,703)	\$ (5,841)	\$ (12,929)	\$ (66,827)	NM	NM
% of Prior Year	82%	88%	(17%)	191%	97%	NM	NM

CHALLENGES AND OBSERVATIONS

- ◇ **College of Medicine** - Loss was higher than Plan and lower than prior year. Lower than expected grant revenue and tuition revenue (shortfall in enrollment); were only partially offset by lower costs.
- ◇ **Clinical Services** - includes HUH and FPP.
 - ◆ HUH - Loss was lower than Plan and prior year. 2% reduction in overall admissions was offset by higher revenue-per-patient and higher outpatient revenue (16%) and emergency care revenue (25%). Admissions most favorable to prior year were in Oral Surgery (+32%), Psychiatry (+23%), Nursery (+13%), Neurology (+11%); Family Practice (+8%), Surgery (+7%) and OBGYN (+7%) and most unfavorable to prior year in Pediatrics(-20%) and Medicine (-10%).
 - ◆ FPP - Higher than Plan and prior year. 14% increase in net revenue and 23% increase in patient volume was more-or-less offset by higher operating costs.
- ◇ **Admin/Support** —includes Cornwell Initiative, Library, Student Health and SVP Office - The loss for this group is higher than both Plan and prior year as spending is over in discretionary areas of administration/services, and compensation is higher, particularly in faculty salaries not absorbed by COM/FPP/HUH. Spending control was slow to materialize.