



HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidated Financial Statements and Supplemental Schedules

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

HAMPTON UNIVERSITY AND SUBSIDIARIES

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KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Independent Auditors' Report

The Board of Trustees
Hampton University:

We have audited the accompanying consolidated financial statements of Hampton University and subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 auditors' 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 Hampton University and subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Norfolk, Virginia
October 24, 2017

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Financial Position

June 30, 2017 and 2016

Assets	2017	2016
Cash	\$ 10,489,596	3,514,476
Restricted cash equivalents (note 1(c))	6,474,123	6,705,971
Student, patient, and other accounts receivable, less allowance for doubtful accounts of approximately \$2,800,000 and \$1,200,000 at June 30, 2017 and 2016, respectively	9,513,020	9,368,422
U.S. government grants receivable, less allowance for doubtful accounts of \$3,000,000 at June 30, 2017 and 2016	17,661,490	14,963,918
Prepaid expenses and other assets	6,012,115	6,113,579
Student loans receivable	10,934,532	10,989,556
Investments (notes 2 and 11)	293,845,201	264,837,261
Property and equipment, net (notes 3, 4, 5, 7, and 9)	396,603,737	401,234,505
Total assets	<u>\$ 751,533,814</u>	<u>717,727,688</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 18,105,561	15,772,865
Deferred revenue	20,907,595	19,473,314
Notes payable (note 9)	7,629,985	8,023,804
Bonds payable, net	177,061,581	184,651,808
Loans refundable	6,869,288	6,824,355
Total liabilities	<u>230,574,010</u>	<u>234,746,146</u>
Net assets (note 15):		
Unrestricted (notes 3, 4, and 5)	450,385,216	415,830,047
Temporarily restricted (note 12)	12,595,685	11,406,070
Permanently restricted (note 13)	57,978,903	55,745,425
Total net assets	<u>520,959,804</u>	<u>482,981,542</u>
Commitments and contingencies (notes 2 and 14)		
Total liabilities and net assets	<u>\$ 751,533,814</u>	<u>717,727,688</u>

See accompanying notes to consolidated financial statements.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenues:		
Gross tuition and fees	\$ 100,715,237	87,506,363
Less discounts on tuition and fees	<u>23,384,146</u>	<u>19,984,486</u>
Tuition and fees, net	77,331,091	67,521,877
Federal grants and contracts	32,879,416	30,834,225
Private gifts, grants, and contracts	15,223,797	16,493,968
HUPTI net patient service revenue	18,060,017	17,208,237
Investment income	6,162,112	5,349,651
Realized and unrealized gain (loss) on investments and property, net	25,699,301	(12,902,789)
Sales and services of educational departments	7,332,480	6,376,037
Sales and services of auxiliary enterprises	34,242,022	28,837,458
Loan interest income	101,499	123,587
Net assets released from restrictions	<u>1,831,610</u>	<u>1,092,534</u>
Total revenues	<u>218,863,345</u>	<u>160,934,785</u>
Expenses:		
Program services:		
Instructional	46,610,001	39,078,904
Research	18,325,202	16,939,096
HUPTI patient services	21,046,107	20,060,552
Public services	3,882,913	3,505,963
Libraries and museum	5,560,166	5,897,613
Student services	16,756,240	16,183,573
Academic support	11,867,042	12,545,897
Auxiliary services	<u>23,733,020</u>	<u>21,482,732</u>
Total program services	<u>147,780,691</u>	<u>135,694,330</u>
Management and general:		
Institutional support	<u>36,527,485</u>	<u>29,821,605</u>
Total management and general	<u>36,527,485</u>	<u>29,821,605</u>
Total expenses	<u>184,308,176</u>	<u>165,515,935</u>
Change in unrestricted net assets	<u>34,555,169</u>	<u>(4,581,150)</u>
Temporarily restricted net assets:		
Private gifts, grants, and contracts	2,609,749	2,012,782
Investment income	14,095	43,988
Realized and unrealized gains (losses) on investments, net	397,381	(190,428)
Net assets released from restrictions	<u>(1,831,610)</u>	<u>(1,092,534)</u>
Change in temporarily restricted net assets	1,189,615	773,808
Change in permanently restricted net assets – private gifts, grants, and contracts	<u>2,233,478</u>	<u>1,288,208</u>
Change in net assets	37,978,262	(2,519,134)
Net assets at beginning of year	<u>482,981,542</u>	<u>485,500,676</u>
Net assets at end of year	\$ <u>520,959,804</u>	<u>482,981,542</u>

See accompanying notes to consolidated financial statements.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Changes in net assets	\$ 37,978,262	(2,519,134)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	18,665,283	18,519,643
Amortization of bond issuance costs	59,556	177,943
Amortization of net bond issuance premiums	(367,465)	(469,121)
Realized and unrealized (gains) losses on investments, net	(26,096,682)	12,902,789
Contributions restricted for long-term investment	(2,233,478)	(1,288,208)
Changes in assets and liabilities:		
Student, patient, and other accounts receivable	(144,598)	(1,084,499)
U.S. government grants receivable	(2,697,572)	170,274
Prepaid expenses and other assets	101,464	(136,052)
Accounts payable and accrued expenses	(2,537,474)	(9,307,882)
Deferred revenue	1,434,281	1,465,380
Net cash provided by operating activities	<u>24,161,577</u>	<u>18,431,133</u>
Cash flows from investing activities:		
Purchases of investments	(81,848,700)	(80,533,713)
Proceeds from sale and maturities of investments	78,937,442	85,580,241
Purchases of property and equipment	(9,164,345)	(15,533,306)
Disbursements for loans to students	(950,117)	(1,473,304)
Repayments of loans by students	1,005,141	1,199,247
Net cash used in investing activities	<u>(12,020,579)</u>	<u>(10,760,835)</u>
Cash flows from financing activities:		
Proceeds from issuance of bonds	—	14,125,000
Payments on bonds payable	(7,282,318)	(7,193,103)
Payment of underwriting costs	—	(449,579)
Refunding of bonds	—	(14,125,000)
Payments on notes payable	(393,819)	(252,094)
Proceeds from contributions restricted for long-term investment	2,233,478	1,288,208
Increase in loans refundable	44,933	4,697
Net cash used in financing activities	<u>(5,397,726)</u>	<u>(6,601,871)</u>
Net increase in cash and restricted cash equivalents	6,743,272	1,068,427
Cash and restricted cash equivalents at beginning of year	<u>10,220,447</u>	<u>9,152,020</u>
Cash and restricted cash equivalents at end of year	\$ <u>16,963,719</u>	\$ <u>10,220,447</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	\$ 6,965,236	4,739,181
Purchases of property and equipment included in accounts payable and accrued expenses	4,870,170	3,748,645

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(1) The Organization and Summary of Significant Accounting Policies

Hampton University (the University or HU) is a private, coeducational, nonsectarian university located in Hampton, Virginia. The University was founded in 1868 as Hampton Normal and Agricultural Institute. In 1930, the name was changed to Hampton Institute, and it was empowered to grant degrees. In 1984, the name was changed again to Hampton University. The University is comprised of Hampton Institute as the Undergraduate College, the Graduate College, the University College, and the College of Virginia Beach.

The University's primary purpose is to provide education, creation of knowledge, and service to society. The University offers a wide range of graduate and undergraduate programs as well as nondegree study. There are approximately 3,700 undergraduate students and 890 graduate students in attendance.

The significant accounting policies followed by the University and its subsidiaries are described as follows:

(a) Principles of Consolidation

The consolidated financial statements include the University's subsidiaries, Hampton Roads Proton Therapy Institute at Hampton University, LLC, d/b/a Hampton University Proton Therapy Institute (HUPTI) and Atlantic Real Estate, LLC (ARE). HUPTI and ARE single-member limited liability companies in which the University is the single member. HUPTI was formed to develop, construct, and operate a facility that provides proton therapy treatment as a cutting edge technology in the fight against cancer and provide opportunities for research. HUPTI commenced operations and began treating patients in August 2010. ARE owns the Harbour Centre complex, which was acquired by a donation to the University (note 4). All significant intercompany balances and transactions have been eliminated in consolidation. The University has no involvement with variable interest entities.

(b) Basis of Presentation

The University's consolidated financial statements have been prepared on the accrual basis of accounting. These consolidated financial statements have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions and are segregated into three net asset groups as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met by actions of the University and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are generally reported as increases or decreases in unrestricted or temporarily restricted net assets. Expirations of temporary restrictions on net assets

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(i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Temporary restrictions on gifts to acquire long-lived assets are considered met in the period the assets are acquired or placed in service. If the donor-imposed restrictions are amended by the donor after the date of the original gift, the change in restriction is designated as such, and reclassified accordingly in the year the change became effective.

Contributions, which include unconditional promises to give, are recognized as revenue in the period made by the donor. 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 date of gift, except that contributions of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

Contributions and related investment income received by the University with donor-imposed temporary restrictions, which are met within the same reporting period, are reported as unrestricted revenue.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

(c) Restricted Cash Equivalents

Restricted cash equivalents as of June 30, 2017 and 2016 primarily consist of money market mutual funds. Restricted cash equivalents are stated at cost, which approximates fair value, and represent funds that have been externally restricted or internally designated by management for a specific purpose, primarily debt repayment.

(d) Receivables

Student receivables are recorded at the time revenue is recognized and do not bear interest. The allowance for doubtful accounts is the University's best estimate of the amount of probable credit losses in the University's accounts receivable. The University determines the allowance based on historical write-off experience. The University reviews its allowance for doubtful accounts monthly. Past-due balances over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and potential for recovery is considered remote.

Patient receivables consist of amounts due from various healthcare entities for services provided and are recorded at the time revenue is recognized and do not bear interest. Patient receivables are recorded net of allowances for contractual adjustments. The allowance for doubtful accounts is HUPTI's best estimate of the amount of probable credit losses in accounts receivable. HUPTI reviews its allowance for doubtful accounts monthly. Past-due balances over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and potential for recovery is considered remote.

(e) Investments

Investments are recorded at fair value and primarily include investments in securities and investments in investment funds.

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Investments in securities include fixed maturities, common stocks, and exchange-traded funds (ETFs). Fair value for these investments is measured based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying fund managers and reviewed by the University after considering various sources of information. The University analyzes the underlying fund manager's valuation methodologies and related inputs.

Investments in investment funds primarily include investments in hedge funds and private equity funds, such as venture capital partnerships and real estate partnerships, and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures and U.S. generally accepted accounting principles (GAAP). The University has concluded that the net asset value (NAV) reported by the underlying fund is a practical expedient for or approximates the fair value of the investment. Of the \$130,121,899 reported at NAV as of June 30, 2017, \$127,981,661 of those investments are currently redeemable with the fund at NAV under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported NAV. It is, therefore, reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported NAV, and the discount could be significant.

Hedge funds for which market prices or quotations are not readily available are valued at NAV based upon valuations determined in good faith by the underlying investment managers and reviewed by the University. Based on the specific investment, the University may consider, among other factors, the volume of redemptions occurring at the reporting date at NAV, restrictions on redemptions at the reporting date, and the portion of the fund designated as a "side pocket" not available for redemption.

Private equity funds for which market prices or quotations are not readily available are valued at NAV as determined in good faith by the underlying investment managers and reviewed by the University. Based on the specific investment and its underlying assets, the University may consider, among other factors, recently imposed restrictions of liquidity by the fund manager.

Cash equivalents held by investment custodians are reported as investments in the accompanying consolidated statements of financial position.

Investments are exposed to several risks, such as interest rate, currency, market, and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

Investment transactions are accounted for on a trade-date basis. Dividend income or expense is recognized on the ex-dividend date and interest income is recognized on the accrual basis. Cash dividends declared on stocks for which the securities portfolio reflects a short position as of the reporting date are recognized as an expense on the ex-dividend date. Realized gains and losses are

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determined by the specific-identification method for investments in investment funds and average cost for investments in securities. Additionally, gains and losses from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is restricted by external stipulation. Premiums and discounts on fixed income securities are amortized into income using the effective interest method. Fees paid to custodians and investment managers related to investments in securities are recorded on the accrual basis and are netted against investment income on the consolidated statements of activities.

(f) Grants Receivable

Grants receivable and the related unrestricted net assets include amounts applicable to grants and contracts for specific projects for which the University has incurred expenditures that have not been reimbursed.

(g) Property and Equipment, Net

Property and equipment are stated at cost or at estimated fair value at date of gift, if acquired by gift, less accumulated depreciation and amortization. Interest cost incurred on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring these assets.

Depreciation is computed by the straight-line method over the estimated useful lives of the property and equipment. The estimated useful lives are the following: buildings, 40 years; cottages, 25 years; fixed equipment, 15–30 years; and moveable equipment, 10 years.

(h) Collections

The University has extensive collections of works of art, historical treasures, and similar assets, along with library materials including books, periodicals, and other items. These collections are maintained and held for research, education, and public exhibition in furtherance of public service. Proceeds from any sales of collections are used to acquire other items for collections. The cost of collections purchased by the University is charged to expense in the year purchased and donated collection items are not recorded. The value of the University's collections has not been determined or reflected in the University's consolidated financial statements as permitted by GAAP.

(i) Deferred Revenue

Deferred revenue consists primarily of grant funds received during the current year, which are designated to be used in future periods and will be recognized as revenue within one year, as the related expenses are incurred. Deferred revenue also consists of student payments received for the summer school sessions and the next academic year, which will be recognized as instruction takes place.

(j) Loans Refundable

Funds provided by the U.S. government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after subsequent student repayments. These funds are ultimately refundable to the U.S. government and are included in liabilities.

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(k) Functional Expenses

The University allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly. Other expenses that are common to several functions are allocated on various statistical bases.

(l) Income Taxes

The University has been recognized by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Since the University and its subsidiaries had no unrelated business income tax during the fiscal years ended June 30, 2017 and 2016, no provision for income taxes was required.

Tax positions are recognized or derecognized based on a more-likely-than-not threshold. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which change in judgment occurs. This applies to positions taken or expected to be taken in a tax return. The University recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in accounts payable and accrued liabilities, if assessed. No interest expense or penalties have been recognized as of and for the years ended June 30, 2017 and 2016. The University does not believe its consolidated financial statements include (or reflect) any uncertain tax positions.

(m) Donated Services

A number of volunteers have made contributions of time to the University's program and support functions. The value of this contributed time does not meet the criteria for recognition of contributed services, and, accordingly, is not reflected in the consolidated financial statements.

(n) Deferred Compensation

The University has a deferred compensation plan with a total liability of approximately \$4,851,000 and \$4,584,000 at June 30, 2017 and 2016, respectively. The liability consists of deferred salaries, investment earnings, and appreciation/depreciation, and is included in accounts payable and accrued expenses in the consolidated statements of financial position. The University has fully funded the related liability at June 30, 2017 and 2016, and these amounts are included in investments on the consolidated statements of financial position.

(o) Revenue Recognition

(i) Tuition and Fees

Student tuition and fees are recorded as revenue during the fiscal year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by the University for tuition and fees is reflected as a reduction of tuition and fee revenue. Student aid does not include payments made to students for services provided to the University.

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(ii) *HUPTI Net Patient Service Revenue*

HUPTI has agreements with third-party payors, including agreements with commercial insurance providers, managed care organizations, and private individuals, that provide for payments at amounts different from its established rates. HUPTI net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Per the terms of an agreement with a third party for billing and collection services, HUPTI pays a percentage of the net patient service revenue collected, as defined in the agreement, to the third party at a rate of 2.5% during 2017 and 2016. Fees paid to a third party for these services were approximately \$450,000 and \$447,000 in 2017 and 2016, respectively.

(p) ***Use of Estimates***

The preparation of the consolidated financial statements in conformity with GAAP requires management of the University to make a number of estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure 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. Significant items subject to such estimates and assumptions include the carrying value of investments, plant and equipment, and valuation allowances for receivables. Actual results could differ from those estimates.

(q) ***Recently Adopted Accounting Standards***

In 2017, the University adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Amortization of debt issuance costs are reported as interest expense. ASU No. 2015-03 is effective for the University's financial statements issued for fiscal years beginning after December 15, 2015 and is applied on a retrospective basis. Debt issuance costs of \$1,049,953 have been reclassified as a reduction of bonds payable and amortization of debt issuance costs of \$59,556 has been reclassified as interest expense in the accompanying June 30, 2016 consolidated financial statements.

(r) ***Recently Issued Accounting Standards***

The FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, in 2016. This ASU is effective for the University for the fiscal year beginning after December 15, 2017, and early adoption is permitted. This ASU reduces the number of net asset classes presented from three to two: with donor restrictions and without donor restrictions; requires all not for profit entities (NFPs) to present expenses by their functional and natural classifications in one location in the financial statements; and requires NFPs to provide quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date.

The FASB issued ASU No. 2016-02, *Leases (Topic 842)*, in February 2016. This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating

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leases under previous GAAP, which have terms of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases. The result of retaining a distinction between finance leases and operating leases in the statements of operations and cash flows is largely unchanged from previous GAAP. ASU No. 2016-02 is effective for fiscal year 2020.

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers; particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for fiscal year 2019.

The University is currently evaluating the impact these ASUs will have on the consolidated financial statements and related disclosures.

(s) **Reclassifications**

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

(t) **Subsequent Events**

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2017 financial statements through October 24, 2017, the date the consolidated financial statements were issued.

(2) **Fair Value Measurements**

The fair value of investments at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Investment in cash equivalents	\$ 14,051,523	9,783,007
Investment in securities:		
Mutual funds	35,790,033	33,693,374
Government and corporate obligations	21,896,090	21,521,554
Common stocks	79,799,699	66,839,786
Mortgage-backed securities	4,908,277	5,700,670
Investment in investment funds:		
Limited partnerships	81,555,438	79,987,829
Common and collective trusts	28,206,914	23,149,039
Other funds	20,359,547	18,253,848
Equity partnerships and other investments	<u>7,277,680</u>	<u>5,908,154</u>
	<u>\$ 293,845,201</u>	<u>264,837,261</u>

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Fair value measurements are categorized into a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest-level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The University determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the University uses various methods, including the market, income, and cost approaches. The University uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The University has evaluated the various types of securities and investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include municipal bonds, foreign government bonds and corporate debt securities and variable annuities. Due to the significance of unobservable inputs required in measuring the fair value of investments in equity partnerships and other investments, these investments have been classified as Level 3 within the fair value hierarchy.

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The following tables show the estimated fair value of University investments for the fiscal year ended June 30. Fair value measurements not valued using the practical expedient are categorized into a three-level hierarchy.

	June 30, 2017				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Restricted cash equivalents	\$ 6,474,123	—	—	—	6,474,123
Investments:					
Investments in cash equivalents	14,051,523	—	—	—	14,051,523
Investments in securities:					
Mutual funds	35,790,033	—	—	—	35,790,033
Government and corporate obligations	—	9,396,090	12,500,000	—	21,896,090
Common stocks	79,799,699	—	—	—	79,799,699
Mortgage-backed securities	—	4,908,277	—	—	4,908,277
Equity partnerships and other investments	—	2,078,476	5,199,204	—	7,277,680
Investments measured at net asset value ⁽¹⁾	—	—	—	130,121,899	130,121,899
Total investments	<u>129,641,255</u>	<u>16,382,843</u>	<u>17,699,204</u>	<u>130,121,899</u>	<u>293,845,201</u>
Total	<u>\$ 136,115,378</u>	<u>16,382,843</u>	<u>17,699,204</u>	<u>130,121,899</u>	<u>300,319,324</u>
	June 30, 2016				
	Level 1	Level 2	Level 3	NAV	Total
Assets:					
Restricted cash equivalents	\$ 6,705,971	—	—	—	6,705,971
Investments:					
Investments in cash equivalents	9,783,007	—	—	—	9,783,007
Investments in securities:					
Mutual funds	33,693,374	—	—	—	33,693,374
Government and corporate obligations	—	9,021,554	12,500,000	—	21,521,554
Common stocks	66,839,786	—	—	—	66,839,786
Mortgage-backed securities	—	5,700,670	—	—	5,700,670
Equity partnerships and other investments	—	859,425	5,048,729	—	5,908,154
Investments measured at net asset value ⁽¹⁾	—	—	—	121,390,716	121,390,716
Total investments	<u>110,316,167</u>	<u>15,581,649</u>	<u>17,548,729</u>	<u>121,390,716</u>	<u>264,837,261</u>
Total	<u>\$ 117,022,138</u>	<u>15,581,649</u>	<u>17,548,729</u>	<u>121,390,716</u>	<u>271,543,232</u>

⁽¹⁾ Certain investments measured at fair value using the NAV per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

The following table summarizes changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2017 and 2016:

	<u>Level 3</u>
Assets:	
Ending balance as of June 30, 2015	\$ 12,890,004
Total net losses included in change in net assets	(24,535)
Purchases	<u>4,683,260</u>
Ending balance as of June 30, 2016	17,548,729
Total net gains included in change in net assets	150,475
Purchases	<u>—</u>
Ending balance as of June 30, 2017	<u>\$ 17,699,204</u>

The University's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. The University had no significant transfers to or from Level 1, Level 2, or Level 3 during the years ended June 30, 2017 and 2016. The University did not have any assets or liabilities measured at fair value on a nonrecurring basis as of and for the years ended June 30, 2017 and 2016.

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Notes to Consolidated Financial Statements

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The following table summarizes information about the attributes of investments in investment funds by major category as of June 30, 2017:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Domestic equity	\$ 63,043,583	1,548,803	Monthly, quarterly, annually	1–95 days
International equity	45,704,408	—	Monthly, quarterly, annually	1–65 days
Diversified	13,352,661	—	Monthly, quarterly, annually	5–65 days
Multi-strategy	5,881,010	—	Monthly, quarterly, annually	5 days
Other/real estate	<u>2,140,237</u>	<u>1,199,482</u>	N/A	N/A
	<u>\$ 130,121,899</u>	<u>2,748,285</u>		

(a) Domestic Equity

This category includes investments in hedge funds that invest primarily in publicly traded U.S. stocks with long-term investment horizons and modest liquidity constraints. The domestic equity portfolio may contain both a passive core and an active investment strategy. The passive core is meant to provide low-cost exposure to the U.S. equity market and will primarily be achieved through the use of, but not limited to, swaps, ETFs, and other derivative products, utilized from time to time to add or reduce the directionality of the portfolio. The portfolio seeks to generate incremental returns (alpha) through its active investment strategies. The active investment strategies will include both long and long/short managers. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

(b) International Equity

This category includes investments in hedge funds that invest primarily in publicly traded common stock of predominantly international markets, both in developed and developing/emerging regions. The international equity portfolio takes an active investment approach due to the less efficient nature of the markets, which should generate higher returns than a passive core and will be implemented through both long/short and long only managers, potentially in all regions of the world. Despite an active approach, from time to time, there may be opportunities to add or reduce directionality to international markets through the use of, but not limited to, swaps, ETFs, and other derivative products. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

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(c) Diversified and Multi-Strategy

This category includes investments in hedge funds that invest primarily in investments specializing in asset allocation across multiple investment strategies that have low correlations and/or market exposure to other asset classes. Diversification across strategies and positions will be wide in order to dampen portfolio volatility. The portfolio's liquidity will be moderate, less than that of the traditional public equity portfolios, but more liquid than the private equity/venture capital portfolio. This portfolio will focus on areas and strategies where value added by active management can contribute a substantial portion of the return. The portfolio may utilize swaps, derivatives, ETFs, or other instruments in order to manage risk. The fair values of the investments in this category have been estimated using the NAV per share of the investments.

(d) Other/Real Estate

This category includes investments in small limited partnerships and real estate investment funds. The objective of the small limited partnerships is to generate superior capital appreciation through equity-based investments and joint ventures. The long-term objective of the real estate portfolio is to provide equity-like returns while providing a partial hedge against inflation. The portfolio is directed largely to illiquid investments with a long time horizon. The fair values of the investments in this category have been estimated using the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

(3) Hampton Harbor

The Hampton Harbor complex is 100% owned by the University and is comprised of a 246-unit apartment complex and a retail shopping center located adjacent to the University. The accounts of Hampton Harbor, which are included in the consolidated statements of financial position, include the following at June 30, 2017 and 2016:

	2017	2016
Assets:		
Cash	\$ 391,859	144,051
Tenant security deposits	164,477	224,102
Tenant and other accounts receivable	27,979	89,397
Property and equipment:		
Apartments	12,911,973	12,864,186
Retail shops	4,321,519	4,306,149
	17,233,492	17,170,335
Less accumulated depreciation	10,709,391	10,163,899
Net property and equipment	6,524,101	7,006,436
Total assets	\$ 7,108,416	7,463,986

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

	2017	2016
Liabilities and unrestricted net assets:		
Accounts payable and accrued expenses	\$ 120,818	155,332
Refundable tenant security deposits	164,335	224,102
Note payable	6,143,174	6,427,174
Total liabilities	6,428,327	6,806,608
Unrestricted net assets	680,089	657,378
Total liabilities and unrestricted net assets	\$ 7,108,416	7,463,986

(4) Harbour Centre

The Harbour Centre complex, owned by ARE, is a 14-story multi-tenant office building located in downtown Hampton. The accounts of Harbour Centre, which are included in the consolidated statements of financial position, at June 30, 2017 and 2016 include the following:

	2017	2016
Assets:		
Cash	\$ 157,582	227,308
Tenants and other accounts receivable	54,059	169,544
Property and equipment, net	20,803,561	21,188,796
Other assets, net	169,150	130,017
Total assets	\$ 21,184,352	21,715,665
Liabilities and unrestricted net assets:		
Accounts payable and accrued expenses	\$ 28,713	105,142
Refundable tenant security deposits	23,445	21,667
Intercompany note payable	6,436,632	6,976,838
Total liabilities	6,488,790	7,103,647
Unrestricted net assets	14,695,562	14,612,018
Total liabilities and unrestricted net assets	\$ 21,184,352	21,715,665

(5) Hampton University Hispanic Initiative

In September 2016, the University commenced managerial operations of a commercial office building in Newport News, Virginia. The building is on 3.85 acres of land and is approximately 111,200 square feet. A portion of the building was renovated to house the Hampton University Hispanic Initiative, a University program established to serve, teach, and develop strong communities. The remainder of the building is

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

currently occupied and leased to unrelated third parties. The consolidated statement of financial position at June 30, 2017 includes the following balances:

Assets:	
Cash	\$ 334,904
Tenants and other accounts receivable	2,512
Property and equipment, net	6,689,427
Other assets, net	<u>70,718</u>
Total assets	<u>\$ 7,097,561</u>
Liabilities and unrestricted net assets:	
Accounts payable and accrued expenses	\$ 49,911
Refundable tenant security deposits	<u>92,464</u>
Total liabilities	142,375
Unrestricted net assets	<u>6,955,186</u>
Total liabilities and unrestricted net assets	<u>\$ 7,097,561</u>

(6) Fair Value of Financial Instruments

The carrying amounts of student, patient, and other accounts receivable, U.S. government grants receivable, and accounts payable and accrued expenses approximate fair value because of the short maturity of these financial instruments. A reasonable estimate of the fair value of the student loans receivable under government loan programs could not be made because the student loans receivable are not saleable and can only be assigned to the U.S. government or its designees; therefore, the fair value of student loans receivable under the University's loan programs approximates carrying value. The fair value of contributions receivable approximates the net carrying value.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(7) Property and Equipment

Property and equipment at June 30, 2017 and 2016 consist of the following:

	2017	2016
Land	\$ 3,986,040	2,957,753
Buildings	440,459,878	434,476,297
Cottages	8,475,847	8,022,882
Fixed equipment	18,530,937	18,434,829
Moveable equipment	179,061,243	175,735,569
Construction in progress	7,170,860	4,022,960
	657,684,805	643,650,290
Less accumulated depreciation and amortization	(261,081,068)	(242,415,785)
	\$ 396,603,737	401,234,505

(8) Bonds Payable

Bonds payable at June 30, 2017 and 2016 consist of the following:

	2017	2016
Virginia College Building Authority Refunding Revenue Bonds, 2015 Series, serial bonds with an interest rate of 2.30% due in annual installments ranging from \$632,400 to \$2,223,500 maturing in 2025	\$ 9,844,500	12,016,500
Virginia Small Business Financing Authority Revenue and Refunding Bonds, 2014 Series, term bonds with an interest rate of 4.00% to 5.25% due in annual installments increasing each year from \$395,000 in 2016 to \$7,250,000 in 2039	109,275,000	112,210,000
Virginia Small Business Financing Authority Revenue and Refunding Bonds, 2010 series, term bonds with an interest rate of 2.56% due in annual installments increasing each year from \$395,000 in 2011 to \$500,000 in 2018	500,000	995,000
Historically Black Colleges and Universities Capital Financing Program, Future Advance Project Funding Bond, Series A 2013-2 bond with a fixed interest rate of 2.90% due in annual installments increasing each year from \$1,351,000 in 2015 to \$3,064,000 in 2040; the full amount of the \$60,065,000 available under the bond has not been drawn	51,965,884	53,646,202
Total bonds payable	171,585,384	178,867,702
Plus unamortized premium	6,466,594	6,834,059
Less unamortized debt issuance costs, net	(990,397)	(1,049,953)
Bonds payable, net	\$ 177,061,581	184,651,808

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Aggregate annual maturities of bonds payable at June 30, 2017 are as follows:

2018	\$	7,405,166
2019		7,143,142
2020		7,373,456
2021		5,825,756
2022		6,053,575
Thereafter		<u>137,784,289</u>
	\$	<u>171,585,384</u>

In November 2014, the University issued the fixed rate \$115,090,000 Series 2014 Virginia Small Business Financing Authority Refunding Revenue Bonds. In conjunction with the bond issuance, the University recorded a bond premium of \$6,296,716, which is being amortized over the life of the bonds.

(9) Notes Payable

The University, on behalf of Hampton Harbor, obtained a multifamily note payable that is secured by the apartments in the amount of \$6,983,701. The multifamily note bears interest at a rate per annum equal to the sum of the one-month LIBOR plus 1.90% (2.95% and 2.42% at June 30, 2017 and 2016, respectively). The multifamily note is payable in monthly installments of principal of \$23,667 plus interest, with the remaining balance due August 2024. The balance of the note payable at June 30, 2017 and 2016 was \$6,143,174 and \$6,427,174, respectively.

In March 1997, the University obtained a mortgage note payable from the Department of Education in the amount of \$2,875,000. The note requires semiannual payments of \$98,383, which include interest at a fixed rate of 5.5% per annum, which began in July 1997 and will end on January 1, 2027. The balance of the note at June 30, 2017 and 2016 was \$1,486,811 and \$1,596,630, respectively. The note is collateralized by a deed of trust on certain property of the University.

The maturities of the notes payable as of June 30, 2017 are as follows:

2018	\$	399,942
2019		406,407
2020		413,232
2021		420,437
2022		428,045
Thereafter		<u>5,561,922</u>
	\$	<u>7,629,985</u>

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(10) Pension Plan

Substantially all of the permanent employees of the University are eligible after specified periods of employment to participate in a defined contribution pension plan with The Teachers' Insurance and Annuity Association of America and the College Retirement Equities Fund (the Plan). The Plan's benefits are funded through purchase of individual insurance annuity policies. University contributions to the Plan are based on percentages of qualified employee earnings. University contributions to the Plan were approximately \$1,345,000 and \$1,315,000 for the fiscal years ended June 30, 2017 and 2016, respectively.

(11) Key Man Life Insurance Policy

The University established a whole life insurance policy for the President of the University in the amount of \$1,000,000. The President is the insured, and the University is the owner and beneficiary. The cash surrender value in the amount of \$139,294 and \$149,313 is included in investments in the accompanying consolidated statements of financial position as of June 30, 2017 and 2016, respectively.

(12) Temporarily Restricted Net Assets

The amounts included as temporarily restricted net assets as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Scholarships	\$ 6,264,502	5,315,645
Faculty and professional development	5,167,742	5,111,907
Other	1,163,441	978,518
	\$ 12,595,685	11,406,070

(13) Permanently Restricted Net Assets

The amounts included as permanently restricted net assets as of June 30, 2017 and 2016 are to be held in perpetuity and the related income is to be used as follows:

	2017	2016
Operational	\$ 12,689,855	12,677,855
Scholarships	38,401,089	36,179,611
Faculty and professional development	6,887,959	6,887,959
	\$ 57,978,903	55,745,425

(14) Commitments and Contingencies

At June 30, 2017, the University had outstanding purchase commitments for normal operational expenditures of approximately \$10,239,000.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Amounts received and expended by the University under various federal and state programs are subject to audit by various federal and state agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position of the University.

Effective December 2007, HUPTI entered into a maintenance agreement with a third party to maintain and service the proton therapy equipment through December 2018. During the years ended June 30, 2017 and 2016, HUPTI recognized expenses under this maintenance agreement of approximately \$3,873,000 and \$3,526,000, respectively.

Governmental funding for healthcare programs is subject to statutory and regulatory changes, interpretations of policy, intermediary determinations, administrative rulings, and governmental funding restrictions. Approximately 41% and 34% of HUPTI's net patient service revenue was related to Medicare and Medicaid programs during 2017 and 2016, respectively.

The University is subject to various legal proceedings and claims, which arise in the ordinary course of its business. In the opinion of management, appropriate provision has been made for possible losses, and the ultimate resolution of these matters will not have a significant effect on the financial position of the University.

(15) Endowment

Through June 30, 2008, the University's management and investment of donor-restricted endowment funds were subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. Effective July 1, 2008, the Commonwealth of Virginia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

The University's endowment consists of approximately 550 individual funds established for a variety of purposes. The endowment includes donor-restricted and board-designated endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions, if any.

Investments in the endowment fund totaled \$285,510,286 and \$258,835,095 at June 30, 2017 and 2016, respectively. Contributions receivable totaled \$436,157 and \$276,954 at June 30, 2017 and 2016, respectively.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

Endowment net asset composition by type of fund as of June 30, 2017 and 2016 is as follows (net of interfund eliminations of \$45,135,573 and \$41,566,517, respectively):

		June 30, 2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	5,167,744	57,978,903	63,146,647
Board-designated endowment funds		222,799,796	—	—	222,799,796
	\$	<u>222,799,796</u>	<u>5,167,744</u>	<u>57,978,903</u>	<u>285,946,443</u>

		June 30, 2016			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$	—	4,756,268	55,745,425	60,501,693
Board-designated endowment funds		198,610,356	—	—	198,610,356
	\$	<u>198,610,356</u>	<u>4,756,268</u>	<u>55,745,425</u>	<u>259,112,049</u>

Changes in endowment net assets for the years ended June 30, 2017 and 2016 are as follows:

		June 30, 2017			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2016	\$	198,610,356	4,756,268	55,745,425	259,112,049
Investment return:					
Investment income		6,079,610	14,095	—	6,093,705
Net appreciation		25,620,117	397,381	—	26,017,498
Total investment return		31,699,727	411,476	—	32,111,203
Contributions		—	—	2,233,478	2,233,478
Distributions		(3,936,616)	—	—	(3,936,616)
Endowment net assets before eliminations		226,373,467	5,167,744	57,978,903	289,520,114
Interfund eliminations		(3,573,671)	—	—	(3,573,671)
Endowment net assets, June 30, 2017	\$	<u>222,799,796</u>	<u>5,167,744</u>	<u>57,978,903</u>	<u>285,946,443</u>

HAMPTON UNIVERSITY AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

	June 30, 2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2015	\$ 213,531,033	4,902,706	54,457,217	272,890,956
Investment return:				
Investment income	5,349,651	43,989	—	5,393,640
Net depreciation	(12,462,347)	(190,427)	—	(12,652,774)
Total investment return	(7,112,696)	(146,438)	—	(7,259,134)
Contributions	—	—	1,288,208	1,288,208
Distributions	(3,480,767)	—	—	(3,480,767)
Endowment net assets before eliminations	202,937,570	4,756,268	55,745,425	263,439,263
Interfund eliminations	(4,327,214)	—	—	(4,327,214)
Endowment net assets, June 30, 2016	\$ 198,610,356	4,756,268	55,745,425	259,112,049

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration in accordance with GAAP. Deficiencies of this nature are reported in unrestricted net assets.

The University has investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing university operations. The practice allows the endowment assets to be invested in a manner that is intended to produce results that exceed the price and yield the results of the allocation index while assuming a moderate level of investment risk. The University expects its endowment funds to provide a rate of return that preserves the gift and generates earnings to achieve the endowment's purpose.

To satisfy the long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and interest and dividend income. The University uses diversified asset allocation to achieve its long-term return objectives within prudent risk constraints to preserve capital.

The University has a practice of distributing the major portion of current year earnings on the endowment funds, if the restrictions have been met. Some of the donor-restricted endowments require a portion of the earnings to increase the corpus of the endowment. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidating Statement of Financial Position

June 30, 2017

Assets	2017			
	HU	HUPTI	Eliminating entries	Consolidated
Cash	\$ 9,835,723	653,873	—	10,489,596
Restricted cash equivalents	649,386	5,824,737	—	6,474,123
Student, patient, and other accounts receivable, less allowance for doubtful accounts	6,521,366	2,991,654	—	9,513,020
U.S. government grants receivable, less allowance for doubtful accounts	17,661,490	—	—	17,661,490
Prepaid expenses and other assets	5,751,158	260,957	—	6,012,115
Student loans receivable	10,934,532	—	—	10,934,532
Investments	293,845,201	—	—	293,845,201
Property and equipment, net	285,110,751	127,052,357	(15,559,371)	396,603,737
Subordinated note receivable	165,305,885	—	(165,305,885)	—
Subordinated interest receivable	33,316,392	—	(33,316,392)	—
Due from parent	—	3,558,464	(3,558,464)	—
Total assets	\$ 828,931,884	140,342,042	(217,740,112)	751,533,814
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 16,553,225	1,552,336	—	18,105,561
Deferred revenue	20,907,595	—	—	20,907,595
Notes payable	7,629,985	—	—	7,629,985
Bonds payable, net	177,061,581	—	—	177,061,581
Loans refundable	6,869,288	—	—	6,869,288
Intercompany payable – HBCU loan	—	51,965,884	(51,965,884)	—
Intercompany payable – VSBFA	—	113,340,001	(113,340,001)	—
Subordinated interest payable	—	33,316,392	(33,316,392)	—
Investment in subsidiary	59,832,571	—	(59,832,571)	—
Due to subsidiary	3,558,464	—	(3,558,464)	—
Total liabilities	292,412,709	200,174,613	(262,013,312)	230,574,010
Net assets:				
Unrestricted	465,944,587	(59,832,571)	44,273,200	450,385,216
Temporarily restricted	12,595,685	—	—	12,595,685
Permanently restricted	57,978,903	—	—	57,978,903
Total net assets	536,519,175	(59,832,571)	44,273,200	520,959,804
Commitments and contingencies				
Total liabilities and net assets	\$ 828,931,884	140,342,042	(217,740,112)	751,533,814

See accompanying independent auditors' report.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidating Statement of Financial Position

June 30, 2016

Assets	2016			
	HU	HUPTI	Eliminating entries	Consolidated
Cash	\$ 1,574,179	1,940,297	—	3,514,476
Restricted cash equivalents	648,627	6,057,344	—	6,705,971
Student, patient, and other accounts receivable, less allowance for doubtful accounts	6,943,781	2,424,641	—	9,368,422
U.S. government grants receivable, less allowance for doubtful accounts	14,963,918	—	—	14,963,918
Prepaid expenses and other assets	5,577,430	536,149	—	6,113,579
Student loans receivable	10,989,556	—	—	10,989,556
Investments	264,837,261	—	—	264,837,261
Property and equipment, net	284,801,288	131,992,588	(15,559,371)	401,234,505
Subordinated note receivable	167,667,933	—	(167,667,933)	—
Subordinated interest receivable	33,316,392	—	(33,316,392)	—
Due from parent	—	3,825,034	(3,825,034)	—
Total assets	<u>\$ 791,320,365</u>	<u>146,776,053</u>	<u>(220,368,730)</u>	<u>717,727,688</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	\$ 13,134,656	2,638,209	—	15,772,865
Deferred revenue	19,473,314	—	—	19,473,314
Notes payable	8,023,804	—	—	8,023,804
Bonds payable	184,651,808	—	—	184,651,808
Loans refundable	6,824,355	—	—	6,824,355
Intercompany payable – HBCU loan	—	53,377,933	(53,377,933)	—
Intercompany payable – VSBFA	—	114,290,000	(114,290,000)	—
Subordinated interest payable	—	33,316,392	(33,316,392)	—
Investment in subsidiary	56,846,481	—	(56,846,481)	—
Due to subsidiary	3,825,034	—	(3,825,034)	—
Total liabilities	<u>292,779,452</u>	<u>203,622,534</u>	<u>(261,655,840)</u>	<u>234,746,146</u>
Net assets:				
Unrestricted	431,389,418	(56,846,481)	41,287,110	415,830,047
Temporarily restricted	11,406,070	—	—	11,406,070
Permanently restricted	55,745,425	—	—	55,745,425
Total net assets	<u>498,540,913</u>	<u>(56,846,481)</u>	<u>41,287,110</u>	<u>482,981,542</u>
Commitments and contingencies				
Total liabilities and net assets	<u>\$ 791,320,365</u>	<u>146,776,053</u>	<u>(220,368,730)</u>	<u>717,727,688</u>

See accompanying independent auditors' report.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidating Statement of Activities

Year ended June 30, 2017

	2017			
	HU	HUPTI	Eliminating entries	Consolidated
Revenues:				
Gross tuition and fees	\$ 100,715,237	—	—	100,715,237
Less discounts on tuition and fees	23,384,146	—	—	23,384,146
Tuition and fees, net	77,331,091	—	—	77,331,091
Federal grants and contracts	32,879,416	—	—	32,879,416
Private gifts, grants, and contracts	15,223,797	—	—	15,223,797
HUPTI net patient service revenue	—	18,060,017	—	18,060,017
Investment income	6,162,112	—	—	6,162,112
Realized and unrealized losses on investments and property, net	25,699,301	—	—	25,699,301
Sales and services of educational departments	7,332,480	—	—	7,332,480
Sales and services of auxiliary enterprises	34,242,022	—	—	34,242,022
Loan interest income	101,499	—	—	101,499
Net assets released from restrictions	1,831,610	—	—	1,831,610
Total revenues	200,803,328	18,060,017	—	218,863,345
Expenses:				
Program services:				
Instructional	46,610,001	—	—	46,610,001
Research	18,325,202	—	—	18,325,202
HUPTI patient services	—	21,046,107	—	21,046,107
Public services	3,882,913	—	—	3,882,913
Libraries and museum	5,560,166	—	—	5,560,166
Student services	16,756,240	—	—	16,756,240
Academic support	11,867,042	—	—	11,867,042
Auxiliary services	23,733,020	—	—	23,733,020
Investment in subsidiary	2,986,090	—	(2,986,090)	—
Total program services	129,720,674	21,046,107	(2,986,090)	147,780,691
Management and general:				
Institutional support	36,527,485	—	—	36,527,485
Total management and general	36,527,485	—	—	36,527,485
Total expenses	166,248,159	21,046,107	(2,986,090)	184,308,176
Change in unrestricted net assets	34,555,169	(2,986,090)	2,986,090	34,555,169
Temporarily restricted net assets:				
Private gifts, grants, and contracts	2,609,749	—	—	2,609,749
Investment income	14,095	—	—	14,095
Realized and unrealized gains on investments, net	397,381	—	—	397,381
Net assets released from restrictions	(1,831,610)	—	—	(1,831,610)
Change in temporarily restricted net assets	1,189,615	—	—	1,189,615
Change in permanently restricted net assets – private gifts, grants, and contracts	2,233,478	—	—	2,233,478
Change in net assets	37,978,262	(2,986,090)	2,986,090	37,978,262
Net assets at beginning of year	498,540,913	(56,846,481)	41,287,110	482,981,542
Net assets at end of year	\$ 536,519,175	(59,832,571)	44,273,200	520,959,804

See accompanying independent auditors' report.

HAMPTON UNIVERSITY AND SUBSIDIARIES

Consolidating Statement of Activities

Year ended June 30, 2016

	2016			
	HU	HUPTI	Eliminating entries	Consolidated
Revenues:				
Gross tuition and fees	\$ 87,506,363	—	—	87,506,363
Less discounts on tuition and fees	19,984,486	—	—	19,984,486
Tuition and fees, net	67,521,877	—	—	67,521,877
Federal grants and contracts	30,834,225	—	—	30,834,225
Private gifts, grants, and contracts	16,021,100	472,868	—	16,493,968
HUPTI net patient service revenue	—	17,208,237	—	17,208,237
Investment income	5,349,651	—	—	5,349,651
Realized and unrealized losses on investments and property, net	(12,902,789)	—	—	(12,902,789)
Sales and services of educational departments	6,376,037	—	—	6,376,037
Sales and services of auxiliary enterprises	28,837,458	—	—	28,837,458
Loan interest income	123,587	—	—	123,587
Net assets released from restrictions	1,092,534	—	—	1,092,534
Total revenues	143,253,680	17,681,105	—	160,934,785
Expenses:				
Program services:				
Instructional	39,078,904	—	—	39,078,904
Research	16,939,096	—	—	16,939,096
HUPTI patient services	—	20,060,552	—	20,060,552
Public services	3,505,963	—	—	3,505,963
Libraries and museum	5,897,613	—	—	5,897,613
Student services	16,183,573	—	—	16,183,573
Academic support	12,545,897	—	—	12,545,897
Auxiliary services	21,482,732	—	—	21,482,732
Investment in subsidiary	2,379,447	—	(2,379,447)	—
Total program services	118,013,225	20,060,552	(2,379,447)	135,694,330
Management and general:				
Institutional support	29,821,605	—	—	29,821,605
Total management and general	29,821,605	—	—	29,821,605
Total expenses	147,834,830	20,060,552	(2,379,447)	165,515,935
Change in unrestricted net assets	(4,581,150)	(2,379,447)	2,379,447	(4,581,150)
Temporarily restricted net assets:				
Private gifts, grants, and contracts	2,012,782	—	—	2,012,782
Investment income	43,988	—	—	43,988
Realized and unrealized gains on investments, net	(190,428)	—	—	(190,428)
Net assets released from restrictions	(1,092,534)	—	—	(1,092,534)
Change in temporarily restricted net assets	773,808	—	—	773,808
Change in permanently restricted net assets – private gifts, grants, and contracts	1,288,208	—	—	1,288,208
Change in net assets	(2,519,134)	(2,379,447)	2,379,447	(2,519,134)
Net assets at beginning of year	501,060,047	(54,467,034)	38,907,663	485,500,676
Net assets at end of year	\$ 498,540,913	(56,846,481)	41,287,110	482,981,542

See accompanying independent auditors' report.