



## **The Howard University**

Consolidated Financial Statements  
For Fiscal Years Ended June 30, 2021 and 2020

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# OFFICE OF THE SENIOR VICE PRESIDENT CHIEF FINANCIAL OFFICER

## **Management's Responsibility for the Consolidated Financial Statements**

The administration of The Howard University is responsible for the preparation, accuracy, integrity and objectivity of the consolidated financial statements contained herein. Such consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include certain amounts that represent our best estimates and judgments. Actual amounts could differ from those estimates.

These consolidated financial statements have been prepared under my supervision. Based on my knowledge, these financial statements present fairly, in all material respects, the financial position, changes in net assets and cash flows of The Howard University for the periods presented herein.

Furthermore, I hereby certify that The Howard University, as Borrower under separate agreements with certain banks and lending institutions, is in compliance with the respective financial covenants as of June 30, 2021, as described in Note 14 of the accompanying consolidated financial statements.

### **Stephen Graham**

Senior Vice President, Chief Financial Officer

### **John D. Gordon, Jr. MS, CPA, CGMA**

Controller and Chief Accounting Officer

February 9, 2022



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## **Independent Auditor's Report**

Board of Trustees  
The Howard University  
Washington, DC

### **Report on the Audit of the Consolidated Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of The Howard University (the "University"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.



### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Other Matters**

#### ***Report on Summarized Comparative Information***

We have previously audited the University's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent in all material respects with the audited consolidated financial statements from which it has been derived.



#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2022 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*BDO USA, LLP*

February 9, 2022

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in thousands)</i>	June 30, 2021	June 30, 2020
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 195,076	\$ 123,018
Operating investments	42,218	7,748
Deposits with trustees	26,660	3,186
Receivables, net	104,215	101,408
Healthcare contract assets	2,015	3,239
Inventories, prepaids and other assets	32,378	16,575
Restricted investments	47,972	34,624
<b>Total Current Assets</b>	<b>450,534</b>	<b>289,798</b>
<b>Long Term Assets:</b>		
Deposits with trustees	13,462	12,974
Receivables, net	64,346	21,967
Inventories, prepaids and other assets	16,904	15,717
Unexpended bond proceeds	78,636	3,172
Restricted investments	14,113	12,984
Endowment investments	806,419	712,449
Operating right of use assets	5,072	6,209
Finance right of use assets	57,770	44,838
Long-lived assets, net	602,998	546,902
<b>Total Long Term Assets</b>	<b>1,659,720</b>	<b>1,377,212</b>
<b>Total Assets</b>	<b>\$ 2,110,254</b>	<b>\$ 1,667,010</b>
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 132,081	\$ 113,471
Deferred revenue	60,621	72,844
Other liabilities	24,796	25,300
Accrued post-retirement benefits	3,608	3,583
Reserve for self-insured liabilities	27,928	14,289
Notes payable	1,328	26,000
Operating lease obligations	620	1,106
Finance lease obligations	9,426	8,903
Bonds payable, net	12,242	4,684
<b>Total Current Liabilities</b>	<b>272,650</b>	<b>270,180</b>
<b>Long Term Liabilities:</b>		
Other liabilities	3,287	3,490
Accrued post-retirement benefits	46,156	46,858
Underfunded defined benefit pension plan	9,280	167,649
Reserve for self-insured liabilities	46,229	49,159
Operating lease obligations	4,792	5,381
Finance lease obligations	51,138	38,096
Bonds payable, net	534,857	380,130
Refundable advances under Federal Student Loan Program	4,497	5,640
<b>Total Long Term Liabilities</b>	<b>700,236</b>	<b>696,403</b>
<b>Total Liabilities</b>	<b>972,886</b>	<b>966,583</b>
<b>Net Assets:</b>		
Without donor restrictions	453,292	211,353
With donor restrictions	684,076	489,074
<b>Total Net Assets</b>	<b>1,137,368</b>	<b>700,427</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,110,254</b>	<b>\$ 1,667,010</b>

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

## CONSOLIDATED STATEMENTS OF ACTIVITIES

For the year ended June 30, 2021 (with summarized comparative information for fiscal year ended June 30, 2020) (in thousands)	Without Donor Restrictions	With Donor Restrictions	June 30, 2021	Summarized June 30, 2020
<b>Operating</b>				
<b>Revenues and reclassifications:</b>				
Academic services:				
Tuition and fees, net	\$ 164,045	\$ -	\$ 164,045	\$ 146,708
Grants and contracts	86,644	-	86,644	61,473
Auxiliary services	7,932	-	7,932	29,123
Clinical services:				
Patient service - Hospital, net	280,440	-	280,440	267,064
Patient service - Faculty medical practice, net	23,166	-	23,166	24,864
Patient service - Dental clinic, net	920	-	920	1,017
Public support:				
Federal appropriation	239,613	3,405	243,018	239,143
Contributions	64,321	112,879	177,200	52,936
Endowment transfer	8,625	12,277	20,902	24,536
Operating investment income	3,455	-	3,455	582
Real property	5,377	-	5,377	30,209
Other income	48,192	352	48,544	21,774
<b>Total revenues</b>	<b>932,730</b>	<b>128,913</b>	<b>1,061,643</b>	<b>899,428</b>
Net assets released from restrictions	20,850	(20,850)	-	-
<b>Total revenues and reclassifications</b>	<b>953,580</b>	<b>108,063</b>	<b>1,061,643</b>	<b>899,428</b>
<b>Expenses:</b>				
Academic and research:				
Instruction	201,387	-	201,387	204,378
Research	41,404	-	41,404	39,333
Public service	13,738	-	13,738	12,242
Academic support	62,757	-	62,757	48,124
Student services	30,062	-	30,062	38,016
<b>Total academic and research</b>	<b>349,348</b>	<b>-</b>	<b>349,348</b>	<b>342,093</b>
<b>Healthcare services</b>	<b>341,915</b>	<b>-</b>	<b>341,915</b>	<b>269,395</b>
Administrative support:				
Institutional support	140,472	-	140,472	187,764
Fundraising	3,842	-	3,842	4,932
Auxiliary enterprises	21,825	-	21,825	36,484
<b>Total administrative support</b>	<b>166,139</b>	<b>-</b>	<b>166,139</b>	<b>229,180</b>
<b>Total operating expenses</b>	<b>857,402</b>	<b>-</b>	<b>857,402</b>	<b>840,668</b>
<b>Operating revenues over operating expenses</b>	<b>96,178</b>	<b>108,063</b>	<b>204,241</b>	<b>58,760</b>
<b>Non-operating</b>				
Investment income in excess of amount designated for operations	89,468	98,193	187,661	27,253
Endowment transfer	(8,059)	(12,843)	(20,902)	(24,536)
Net unrealized gain in beneficial interest trust	-	1,589	1,589	79
Loss on extinguishment of debt	(14,916)	-	(14,916)	-
Net periodic benefit cost other than service cost	1,021	-	1,021	(5,604)
Change in funded status of defined benefit pension plan	79,437	-	79,437	(23,348)
Change in obligation for post-retirement benefit plan	(1,417)	-	(1,417)	(2,854)
Change in funded status of supplemental retirement plan	227	-	227	295
Other items, net	-	-	-	(694)
<b>Increase (decrease) in non-operating activities</b>	<b>145,761</b>	<b>86,939</b>	<b>232,700</b>	<b>(29,409)</b>
<b>Change in net assets</b>	<b>241,939</b>	<b>195,002</b>	<b>436,941</b>	<b>29,351</b>
<b>Net assets, beginning of year</b>	<b>211,353</b>	<b>489,074</b>	<b>700,427</b>	<b>671,076</b>
<b>Net assets, end of year</b>	<b>\$ 453,292</b>	<b>\$ 684,076</b>	<b>\$ 1,137,368</b>	<b>\$ 700,427</b>

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended (in thousands)	June 30, 2021	June 30, 2020
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 436,941	\$ 29,351
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	31,210	47,921
Bond discount amortization	403	248
Bonds issuance cost amortization	649	779
Loss on extinguishment of debt	14,916	-
Net realized gain on sale of investment	(56,454)	(26,283)
Unrealized gain on investments	(101,064)	(679)
Loss on sales type lease	-	1,155
Loss on sale/disposal of long-lived assets	-	618
Gain on contributed works of art	-	(2,520)
Change in deposits with trustees	(23,962)	(378)
Change in receivables (excluding notes)	(42,367)	24,478
Change in contract assets	1,224	2,290
Change in allowance for doubtful receivables	(4,066)	(7,880)
Change in inventory, prepaids and other assets	(16,989)	(1,872)
Change in operating right of use assets	1,137	(1,448)
Change in accounts payable and accrued expenses	18,608	(24,270)
Change in deferred revenue	(12,222)	56,982
Change in other liabilities	(708)	(134)
Change in pension/post retirement liability	(159,046)	10,432
Change in reserve for self-insured liabilities	10,708	(2,089)
Change in operating lease obligation	(1,075)	1,474
Change in refundable advances under Federal Student Loan Program	(1,143)	(877)
<b>Net cash and cash equivalents provided by operating activities</b>	<b>96,700</b>	<b>107,298</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	1,038,815	980,390
Purchases of investments	(1,024,215)	(948,126)
Return on unexpended bond proceeds	(75,463)	(68)
Purchases and renovations of long-lived assets	(77,399)	(42,174)
Restricted contributions	-	(25,520)
<b>Net cash and cash equivalents used in investing activities</b>	<b>(138,262)</b>	<b>(35,498)</b>
<b>Cash flows from financing activities</b>		
Proceeds from notes payable	36,330	143,000
Payment on notes payable	(61,000)	(125,562)
Proceeds from bonds payable	150,209	143,284
Payments on bonds payable	(3,893)	(156,940)
Principal payments on finance lease obligations	(8,388)	(7,909)
Change in finance right of use assets and lease obligation	(885)	260
Change in student loans issued	(151)	(1,462)
Change in student loans collected	1,398	1,512
Proceeds from restricted contributions	-	25,520
<b>Net cash and cash equivalents provided by financing activities</b>	<b>113,620</b>	<b>21,703</b>
Increase in cash and cash equivalents	72,058	93,503
Cash and cash equivalents at beginning of year	123,018	29,515
<b>Cash and cash equivalents at end of year</b>	<b>\$ 195,076</b>	<b>\$ 123,018</b>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 20,124	\$ 26,682
<b>Supplemental non-cash investing and financing activities:</b>		
Acquisition of equipment under financing leases	1,899	3,531
Stock distributions	6,631	1,325

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

**THE HOWARD UNIVERSITY**  
**Notes to the Consolidated Financial Statements**  
(amounts in thousands)

**1. University Organization**

The Howard University (Howard) is a private, nonprofit institution of higher education (the University) which also operates Howard University Hospital (the Hospital) located in Washington, DC. The University provides academic services in the form of education and training, primarily for students at the undergraduate, graduate, and postdoctoral levels, and performs research, training and other services under grants, contracts, and similar agreements with sponsoring organizations, primarily departments and agencies of the United States government. Howard also provides patient healthcare services at the Hospital and by certain members of the University's faculty as part of its academic clinical activities.

The consolidated financial statements also include the activities of wholly-owned subsidiaries Howard University International (HUI), Howard University Global Initiative – Nigeria, LTD/GTE (HUGIN), and Howard University Global Initiative South Africa NPC (HUGISA). The activities and balances of these entities are reflected in the statements of activities and statements of position, and any intercompany balances have been eliminated in consolidation.

The University conveyed its fee simple interest in the properties known as the East Tower, the West Tower, Drew Hall and Cook Hall to Howard Dormitory Holdings 1, LLC by Special Warranty Deed recorded in January 2017. The Howard special-purpose entity is wholly-owned by the University.

The Hospital has a 49% joint venture interest in the Howard University Dialysis Center LLC (LLC). Howard accounts for its interest in the LLC using the equity method which requires Howard to record a proportional share of the LLC's net income or loss as increases and decreases to the initial investment.

Howard is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to Federal income tax.

**THE HOWARD UNIVERSITY**  
**Notes to the Consolidated Financial Statements**  
(amounts in thousands)

**2. Summary of Significant Accounting Policies**

(a) ***Basis of Presentation***

The accompanying consolidated financial statements of Howard have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements include certain prior year summarized comparative information in total, not by net asset classification. Such summarized information may not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2020, from which the summarized information is derived.

Operating results in the statements of activities reflect all transactions increasing and decreasing net assets except those that the University defines as non-operating. Non-operating includes all investment returns in excess of those classified as operating by the spending policy, unrealized gains and losses from operating accounts, unrealized gains and losses on beneficial interests in perpetual trusts, endowment transfers, changes in accounting principle, and net changes in pension liabilities and other post-retirement benefit plans.

(b) **Net Asset Classifications**

For purpose of financial reporting, the University classifies resources into two classes of net assets based on the existence or absence of donor-imposed restrictions:

**Without Donor Restrictions** – Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the Board) and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

**With Donor Restrictions** – Net assets with donor restrictions are subject to legal or donor-imposed stipulations that will be satisfied by the passage of time, fulfilled by actions of the University pursuant to those stipulations, or both. These net assets include net assets subject to donor-imposed restrictions that are invested to provide perpetual source of income to the University (endowment funds). Donor-restricted endowment funds generally result from donor's stipulation or by extension of donor restriction imposed through the Uniform Prudent Management of Institutional Funds Act (UPMIFA) that limits University's use of an endowment fund. The original gifted amount, any additional gifts to that fund, and any resulting investment returns shall initially be classified as net

# THE HOWARD UNIVERSITY

## Notes to the Consolidated Financial Statements

(amounts in thousands)

assets with donor restrictions. Therefore, unless stated otherwise in the gift, the assets in donor-restricted endowment fund are donor-restricted assets until they are appropriated for expenditure by the University's governing body or law.

Contributions are reported in the appropriate category of revenue, except those contributions with donor-imposed restrictions met in the same fiscal year are included in revenues without donor restrictions. Satisfaction of restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated period has elapsed) are reported as releases from with donor restrictions net assets to without donor restrictions net assets. Donor restrictions on gifts to acquire long-lived assets are considered fulfilled in the period in which the assets are acquired or placed in service.

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

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

(d) ***Income Tax***

The University is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted by U.S. Congress. The Act impacts the University in several ways, including the addition of excise taxes on executive compensation and net investment income, as well as new rules for calculating unrelated business taxable income. The University records an estimate for related tax expense based on available guidance of the Act.

Any unrelated business income tax generated by Howard is recorded as income tax using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or to be settled. Howard analyzed its tax positions for the years ended June 30, 2021 and 2020 and determined that there were no uncertain tax positions that would have a material impact on Howard's consolidated financial statements. Howard's operations do not give rise to transfer pricing activities.

**THE HOWARD UNIVERSITY**  
**Notes to the Consolidated Financial Statements**  
(amounts in thousands)

***Cash and Cash Equivalents***

Short-term investments with maturities at date of purchase of nine months or less are classified as cash equivalents, except that any such investments purchased with funds on deposit with bond trustees, or with funds held in trusts or by external endowment investment managers are classified as Deposits with trustees or Investments, respectively. Cash equivalents include certificates of deposit, short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at approximate fair value. Howard classifies any cash or money market accounts held by external managers as investments, as these amounts are not readily available for operations and are part of the long-term investment portfolio.

(e) ***Investments***

Investments are segregated between operating, donor restricted and endowment investments and deposits with trustees on the consolidated statements of financial position, all of which are stated at fair value and defined as follows:

***Operating Investments*** – represent investments free of any donor or lender-imposed restrictions. These investments include items that are short-term in nature and can be liquidated at the discretion of the Board of Trustees (the “Board”) to meet operational demands. Operating investments also includes a non-controlling interest in a dialysis joint venture (see Note 24).

***Restricted Investments*** – represent non-endowed investments whose principal and or income are restricted by external sources, including liquidation restrictions. The use of the principal and interest of these investments is not subject to the discretion of the Board.

***Endowment Investments*** – represent the pooled endowment and the Federal matching endowment investments. The endowment investments are spread across various asset categories with the use of the income from these investments restricted based on stated donor stipulations.

***Deposits with Trustees*** – represent a debt service reserve fund consisting primarily of fixed income investments and other short-term securities (see Note 7).

The fair values of Howard’s investments are determined by the most relevant available and observable valuation inputs as defined in Note 8. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based upon average historical value (cost of securities purchased or

# THE HOWARD UNIVERSITY

## Notes to the Consolidated Financial Statements

(amounts in thousands)

the fair market value at date of gift, if received by donation). Dividend and interest income are recorded on an accrual basis. Accrued but unpaid dividends, interest and proceeds from investment sales at the report date are recorded as investment receivables.

Investment income (losses) are allocated in a manner consistent with interest and dividends, to either net assets with donor restrictions or net assets without donor restrictions (distinguished between operating and non-operating), based on donor intent or lack thereof. Such amounts may be expended for operations, based on donor time or purpose restrictions or held in perpetuity at the donor's request. Investment income (losses) on loan funds are accumulated in net assets without donor restrictions.

Operating investment income includes interest, dividends and operating investment returns.

(f) ***Receivables and Revenue Recognition***

(1) **Revenue**

The accompanying consolidated statement of activities for the years ended June 30, 2021 and 2020 are presented in accordance with Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASC Subtopic 958-605 *Not for Profit Entities - Revenue* (where applicable).

The University measures revenue from contracts with customers based on the consideration specified in a contract with a customer, and recognizes revenue as a result of satisfying its promise to transfer goods or services in a contract with a customer using the following general revenue recognition five-step model: (1) identify the contract; (2) identify performance obligations; (3) determine transaction price; (4) allocate transaction price; and (5) recognize revenue.

***Disaggregation of Revenue from Contracts with Customers***

ASC 606 requires that entities disclose disaggregated revenue information in categories (such as type of good or service, geography, market, type of contract, etc.) that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. ASC 606 explains that the extent to which an entity's revenue is disaggregated depends on the facts and circumstances that pertain to the entity's contracts with customers and that some entities may need to use more than one type of category to meet with the objective for disaggregating revenue.

**THE HOWARD UNIVERSITY**  
**Notes to the Consolidated Financial Statements**  
(amounts in thousands)

***Judgements***

The University earns revenue primarily through instruction in the form of tuition and fees on its Washington, DC campuses. The University serves both domestic and international students. Tuition and fees are recognized over the course of the semester based on the published start and end dates for classes. In addition to tuition and fees, the University also earns revenue through auxiliary services and other sources. These sources of revenue can be disaggregated by whether there is a contract with a student or non-student, or if there is no contract. The University recognizes non-student contracts based on the date of the event or when the service is provided.

***Performance Obligations***

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account under ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The University does not capitalize contract costs.

The performance obligations related to contracts with students involves providing instruction, housing and dining (if applicable), and access to the University's facilities and services throughout the contract term. As a result, the performance obligations are satisfied over time ratably throughout each contract's applicable period.

Howard enters contracts that include various combinations of services, which are generally capable of being distinct and are accounted for as separate performance obligations.

The University's contracts with customers subject to ASC 606 guidance applies to the following revenue:

**Tuition and fees** from student services are recognized ratably over the academic time period to which they apply. A portion of tuition and fees charged in the current fiscal year for the summer term is deferred and recognized in the following fiscal year due to summer sessions between May and July crossing fiscal years. Tuition discounts in the form of scholarships and grants-in-aid, including those funded by the endowment, research funds, and gifts, are reported as a reduction of tuition revenues. A tuition discount represents the difference between the stated charge for tuition and fees and the amount that is billed to the student and/or third parties making payments on behalf of the student. For any such arrangements, the transaction price only includes tuition and fees net of the awarded discounts or institutional aid. The University also

**THE HOWARD UNIVERSITY**  
**Notes to the Consolidated Financial Statements**  
(amounts in thousands)

grants a tuition discount in the form of a tuition rebate program to incentivize students to earn their degree early or on-time. On-time or early graduates are eligible to receive a 50 percent discount on their tuition for their final semester. The rebate is applicable to direct payments made to the University by the student or family toward the final semester's tuition.

<b>NET TUITION REVENUE</b>	<b>2021</b>	<b>2020</b>
<b>Gross tuition and fees</b>	<b>\$ 312,386</b>	<b>\$ 265,522</b>
Less financial aid:		
Merit	67,086	61,838
Need	59,541	38,872
Talent	8,618	8,813
Other	13,096	9,291
<b>Total financial aid</b>	<b>\$ 148,341</b>	<b>\$ 118,814</b>
<b>Total net tuition</b>	<b>\$ 164,045</b>	<b>\$ 146,708</b>

**Other income** represents income from activities other than those that are ongoing and central to Howard's core business operations and is recognized as revenue in the period it is earned and collectible.

**Net patient service revenue** relates to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. Net patient service revenue is based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of price concessions under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and insured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect.

The Hospital and University faculty physicians have arrangements with third-party payors that provide for payments at established rates. Payment



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arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per-diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient and third-party healthcare payor receivables are the amount due for patient care services rendered by the University's Faculty Practice Plan (FPP) and the Hospital.

<b>NET PATIENT SERVICE REVENUE</b>	<b>2021</b>	<b>2020</b>
<b>Gross Revenues</b>	<b>\$ 774,765</b>	<b>\$ 808,389</b>
Third-party settlement revenue	97,205	90,948
Price concessions	(567,444)	(606,392)
<b>Total net patient service revenue</b>	<b>\$ 304,526</b>	<b>\$ 292,945</b>

**Auxiliary services** are generally recognized when services are rendered or as activities have been completed. Auxiliary revenue is mostly comprised of meal plans, income generated from advertisers on Howard's commercial radio station (WHUR), and student housing. Advertising revenues are recognized when the advertising spots are aired. Other revenues include the Howard University bookstore, parking fees, vending sales, ticket sales and licensing.

The University considers collectability and other price concessions and variable consideration in determination of the transaction prices of the respective streams of auxiliary services revenue.

<b>AUXILIARY SERVICES REVENUE</b>	<b>2021</b>	<b>2020</b>
Student housing	\$ 10	\$ 3,415
Meal plans	376	15,261
Radio station	6,401	6,421
Bookstore	-	1,030
Parking fees	326	1,689
Vending sales and fees	342	519
Ticket sales	91	626
Licensing	220	121
Other	166	41
<b>Total auxiliary services revenue</b>	<b>\$ 7,932</b>	<b>\$ 29,123</b>

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**Real property** revenue is comprised of income and gains from real estate transactions (i.e. sales-type leases) including lease income and is recognized as revenue in the period it is earned and collectible. Revenue recognition for real property lease income transactions is disclosed in further detail in Note 13.

The following revenue streams are subject to the guidance in Topic 958, *Not for Profit Entities*, unless otherwise noted:

**Grants and contracts** revenue is recognized when reimbursable expenses are incurred (for cost plus contracts) or when deliverables or milestones are met (for fixed price contracts). Howard adopted ASU 2018-08, *Not for Profit Entities*, Topic 958 on July 1, 2018. The ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The University adopted this standard using the modified prospective approach and it did not have a material impact to Howard's consolidated financial statements. For the year ended June 30, 2021, Howard recognized \$85,453 of revenue subject to Topic 958 and \$1,191 revenue subject to ASC 606, *Revenue from Contracts with Customers*.

Revenues include recoveries of eligible direct expenses and indirect costs for facilities and administration, which are generally determined as a negotiated or agreed-upon percentage of direct costs. Receivables under research grants and development agreements represent the amounts due from Federal, state, local, private grants, contracts and others.

<b>GRANTS AND CONTRACTS REVENUE</b>	<b>2021</b>	<b>2020</b>
Reimbursement of direct expenses	\$ 77,844	\$ 46,845
Recovery of indirect costs	8,800	14,628
<b>Total University grants and contracts revenue</b>	<b>\$ 86,644</b>	<b>\$ 61,473</b>
<b>Indirect costs recovery as a % of direct costs</b>	<b>11%</b>	<b>31%</b>

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

<b>GRANTS AND CONTRACTS REVENUE BY TYPE</b>	<b>2021</b>	<b>2020</b>
Research	\$ 33,044	\$ 27,569
Training	21,228	15,084
Service/other	32,372	18,820
<b>Total grants and contracts revenue by type</b>	<b>\$ 86,644</b>	<b>\$ 61,473</b>

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Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions with donor specified conditions are not recognized until the conditions have been met.

In fiscal year 2021, the University received approximately \$20,000 in federal contributions from the Department of Education as part of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) appropriations for educational institutions. The funds were used primarily for student grants and to offset losses caused by COVID 19 (see Note 23).

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

Contribution revenue for fiscal years ended June 30, 2021 and 2020 is shown below:

<b>CONTRIBUTIONS REVENUE</b>	<b>2021</b>	<b>2020</b>
Without donor restrictions	\$ 64,321	\$ 27,416
With donor restrictions	112,879	25,520
<b>TOTAL</b>	<b>\$ 177,200</b>	<b>\$ 52,936</b>

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

Works of art, historical treasures, literary works and artifacts, which are preserved and protected for educational, research and public exhibition purposes, are capitalized. Donations of such collections are recorded for financial statement purposes as contributions. The University received art

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contributions in the amount of \$0 and \$2,520 for fiscal years ended June 30, 2021 and 2020, respectively.

**Federal appropriation** revenue is recognized when received and expended. Howard receives a Federal appropriation that can be used for support of the University's educational mission, a portion of which is held as a temporarily restricted term endowment which is required to be held for 20 years. For fiscal years ended June 30, 2021, and 2020, Howard received 23% and 27%, respectively, of its revenue support from the Federal appropriation. The \$3,405 receivable for the fiscal years ended June 30, 2021, and 2020, respectively, represents the portion to be collected on the Federal term endowment as defined in Note 16.

**Student receivables** represent unpaid tuition and fees assessed in current and prior periods that are generated when a student registers for classes through the University's formal registration process. Howard maintains a policy of offering qualified applicants' admission to the University without regard to financial circumstance. Student financial aid is generally fulfilled through a combination of scholarships, fellowships, loans and employment during the academic year. Tuition and fees are recorded net of discounts for scholarships (merit, talent, and need based), fellowships, graduate remission and employee tuition remission. Funding for financial aid may come from donor designated sources or from operations and assets without donor restrictions. Financial aid for fiscal years ended June 30, 2021, and 2020 was \$148,341 and \$118,814, respectively.

**Notes receivable** represent loans the University extended to students from institutional resources and Federal Student Loan programs with outstanding balances, which includes Federal Perkins Loans. Management regularly assesses the adequacy of the allowance for credit losses on student loans by performing ongoing evaluations of the student loan portfolio, including the financial condition of specific borrowers, the economic environment in which the borrowers operate, and the level of delinquent loans.

Howard's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under this Program can be assigned to the Federal Government in certain non-repayment situations. In these situations, the Federal portion of the loan balance is guaranteed.

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

Inventories consist primarily of medical supplies, and are recorded at the lower of cost or realizable value on a first-in, first-out basis. Prepaids consist primarily of

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insurance, dues, subscriptions and other fees and are amortized over the useful period. Other assets consist primarily of deferred health charges, intellectual property, and beneficial interest trust.

### (h) ***Long-Lived Assets***

Long-lived assets include property, capital improvements, equipment, software, library books, and art and historical treasures for the University. Long-lived assets are stated at cost or at fair value if received by gift, less accumulated depreciation and amortization, and are capitalizable when the unit cost is equal to or exceeds \$3 and has a useful life of more than one year. Work in process for campus approved projects are capitalizable and not depreciated until assets are placed in service.

The University capitalizes and recognizes purchased and donated works of art and historical treasures on the balance sheet. Howard does not depreciate works of art and historical treasures where the economic benefit or service potential is used up so slowly that the estimated useful lives are extraordinarily long. However, impaired works of art are adjusted to fair market value, with change in value being recognized as a gain or loss on the statement of activities.

The University's policy for disposal of art and historical treasures from its collection limits the use of proceeds from such disposals for direct care of the remaining collection. In addition, any proceeds received by the University for loans from its collection are used to maintain the quality of the collection.

The University defines direct care of the collection as specific costs used to maintain the value, integrity, and quality of the collection. The direct care of the collection at the University includes appraisals, insurance coverage, security, storage inclusive of climate control, installation inclusive of shipping or relocation, and conservation.

Depreciation for all other long-lived assets is computed using the straight-line method over the estimated useful lives of the assets. The useful lives for fiscal years reported are as follow:

Land improvements	1-25 years
Building and building improvements	5-40 years
Furniture and equipment	3-20 years
Software	3-10 years
Library books	10 years

Title to certain equipment purchased using funds provided by government grants or contracting agencies is vested with Howard, and therefore is included in

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reported property balances. Such assets are subject to potential transfer or disposal by the relevant cognizant agency. Interest costs eligible for capitalization are the costs of restricted borrowings, less any interest earned on temporary investment of the proceeds of those borrowings, from the date of borrowing until qualifying assets are placed in service for their intended use.

The recorded values of certain properties include the fair value of any environmental remediation necessary to meet contractual or regulatory requirements for disposal or remediation of the property. This primarily pertains to the cost of removal and disposal of asbestos.

(i) ***Compensated Absences***

Howard records an amount due to employees for future absences, which is attributable to services performed in the current and prior periods and subject to a maximum carryover. This obligation is recognized on the consolidated statements of financial position as part of accounts payable and accrued expenses. At fiscal years ended June 30, 2021 and 2020 the obligation was \$6,160 and \$4,610, respectively.

(j) ***Other Liabilities***

Other liabilities are comprised primarily of student refunds for housing due to COVID-19 (see Note 23), unclaimed property, student deposits, deposits held in custody for others, environmental liability, reserves for legal and other contingencies and miscellaneous items.

(k) ***Deferred Revenue***

Deferred revenue represents cash received, but not earned as of June 30, 2021. This is primarily composed of unearned grant revenue and Medicare advance payment program.

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

The funded status of Howard's pension benefit (the Plan) is actuarially determined and recognized in the consolidated statements of financial position as either an asset to reflect an overfunded status, or as a liability to reflect an underfunded status. Howard's actuarially determined post-retirement benefit obligation is recognized on the consolidated statements of financial position as a liability. Howard follows the Internal Revenue Service (IRS) guidelines in the administration of the Plan (see Note 15).

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(m) ***Reserves for Self-Insured Liabilities***

The reserve for self-insured liabilities is comprised primarily of amounts accrued for asserted medical malpractice and worker's compensation claims and includes estimates of the ultimate cost to resolve such claims (see Note 7-*Deposits with Trustees and Reserves for Self-insured Liabilities*). The reserve also includes an estimate of the cost to resolve unasserted claims that actuarial analyses indicate are probable of assertion in the future. Medical malpractice claim reserves are stated at an undiscounted amount.

(n) ***Refundable Advances Under Federal Student Loan Program***

Funds provided by the United States Department of Education under the Federal Student Loan Programs are loaned to qualified students and may be re-loaned after collections. The portion of these funds provided by the Department of Education are ultimately refundable to the Department of Education and are reported as liabilities in the consolidated statements of financial position and as cash flows from financing activities in the consolidated statements of cash flows. Loans issued to students are reported as part of receivables in the consolidated statements of financial position.

(o) ***Measure of Operations***

Howard includes in its measure of operations all revenue and expenses that are integral to its continuing core program services with the key objective being predictability of indicated results. Such measures include the gains and losses from real estate related transactions which were previously recorded as non-operating items.

(p) ***New Accounting Pronouncements***

Periodically, the Financial Accounting Standards Board (FASB) issues updates to the Accounting Standards Codification (ASC) which impact Howard's financial reporting and related disclosures. The following paragraphs summarize relevant updates. Unless otherwise noted, Howard University is currently evaluating the impact that these updates will have on the Consolidated Financial Statements.

In March 2020, the FASB issued ASU 2020-03, *Codification improvements to Financial Instruments*, effective for annual financial statements issued for fiscal years beginning after December 15, 2019. The ASU clarifies that all nonpublic companies and organizations are required to provide certain fair value option disclosures. ASU 2020-03 does not have a material impact on the disclosures of the University.

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In January 2020, the FASB issued ASU 2020-01, *Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*. For non-public entities, ASU 2020-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. Howard is evaluating the impact of ASU 2020-01.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. For non-public entities, ASU 2019-12 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The ASU improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacted changes in tax laws in interim periods. Howard is evaluating the impact of ASU 2019-12.

### (q) **Reclassifications**

Certain 2020 amounts have been reclassified to conform to the 2021 presentation. Such reclassifications did not have any impact on the University's previously reported net asset balances.

## 3. Liquidity and Availability of Resources

As of June 30, 2021 and 2020, financial assets and liquidity resources that are available within one year for general expenditures consists of the following:

<b>FINANCIAL ASSETS AND LIQUIDITY RESOURCES</b>	<b>2021</b>	<b>2020</b>
<b><i>Financial Assets:</i></b>		
Cash and cash equivalents	\$ 195,076	\$ 123,018
Operating investments	42,218	7,748
Receivables, net (excluding donor stipulated restrictions)	97,410	99,945
Other investments appropriated for current use	21,173	20,902
<b>Total financial assets available within one year</b>	<b>\$ 355,877</b>	<b>\$ 254,852</b>
<b><i>Liquidity Resources:</i></b>		
Bank line of credit available	150,000	150,000
<b>Total financial assets and liquidity resources available within one year</b>	<b>\$ 505,877</b>	<b>\$ 404,852</b>



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None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. Receivables includes pledges that are subject to implied time restrictions but are expected to be collected within one year. The University's endowment investments consist of donor-restricted and quasi-endowment assets that is subject to a board spending policy of 4 percent. Within the next year, \$21,173 is expected to be made available for general expenditures from the endowment. Although the University requires Board approval to spend from its Board-designated quasi-endowment assets, other than investment income appropriated for general expenditures, amounts from the quasi-endowment could be made available if necessary. See Notes 9 and 16 for additional disclosures on Board-designated quasi-endowment assets. In addition, to help manage unanticipated liquidity needs, the University has a committed line of credit in the amount of \$150,000 which it could draw upon. As of June 30, 2021, there was no outstanding balance on the line of credit.

### 4. Receivables

The major components of receivables, net of reserves for doubtful accounts of \$24.1 million and \$15.8 million as of June 30, 2021 and 2020, respectively, were as follows:

RECEIVABLES	2021	2020
Student	\$ 10,131	\$ 11,985
Notes	4,555	6,840
Federal appropriation	3,405	3,405
Patients and third-party payors - Hospital	37,299	35,686
Patients and third-party payors - FPP	2,690	3,861
Patients and third-party payors - Dental	494	383
Grants and contracts	31,804	15,786
Contributions	54,554	11,565
Auxiliary services	2,575	1,702
Real property	16,136	26,025
Other	4,918	6,137
<b>Total</b>	<b>\$ 168,561</b>	<b>\$ 123,375</b>

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Contributions receivable at June 30, 2021 and 2020 are expected to be received as follows:

<b>CONTRIBUTIONS RECEIVABLE</b>	<b>2021</b>	<b>2020</b>
Within one year	\$ 8,065	\$ 3,945
Between one and five years	48,566	11,490
Thereafter	4,640	-
Contributions receivable gross	61,271	15,435
Unamortized discount on contributions receivable (2%-6.5%)	(4,138)	(1,432)
Contributions receivable, net of discounts	57,133	14,003
Allowance for uncollectible contributions	(2,579)	(2,438)
<b>Contributions receivable, net of discounts and allowance</b>	<b>\$ 54,554</b>	<b>\$ 11,565</b>

## 5. Healthcare Contract Assets

In compliance with ASC 606, estimated reimbursement from patients that were inhouse at the end of the reporting period are reported as Contract Assets on the consolidated statements of financial position. The following is a summary of the balances at June 30, 2021 and 2020:

<b>INHOUSE RECEIVABLES – HEALTHCARE CONTRACT ASSETS</b>	<b>2021</b>	<b>2020</b>
Inhouse charges	\$ 9,691	\$ 12,643
Price concessions	(7,676)	(9,404)
<b>Net healthcare contract assets</b>	<b>\$ 2,015</b>	<b>\$ 3,239</b>

## 6. Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts at fiscal years ended June 30, 2021 and 2020 are as follows:

<b>INVENTORIES, PREPAIDS, AND OTHER ASSETS</b>	<b>2021</b>	<b>2020</b>
Inventories - Hospital	\$ 5,314	\$ 4,939
Prepaid expenses	22,665	8,824
Beneficial interest trust	7,880	6,291
Self-insured assets	5,005	5,125
Intellectual property costs	1,035	1,121
Other (including interest in HUH Dialysis see Note 24)	7,383	5,992
<b>Total</b>	<b>\$ 49,282</b>	<b>\$ 32,292</b>

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**7. Deposits with Trustees and Reserves for Self-insured Liabilities**

<b>DEDICATED ASSETS</b>		
	<b>2021</b>	<b>2020</b>
Debt service reserve	\$ 24,761	\$ 13,074
Capitalized interest	10,677	-
Workers' compensation	2	2
Health insurance trust	4,682	3,084
<b>Total</b>	<b>\$ 40,122</b>	<b>\$ 16,160</b>
<b>LIABILITIES</b>		
	<b>2021</b>	<b>2020</b>
Professional liability	\$ 49,699	\$ 41,068
Workers' compensation	10,725	12,624
Health insurance trust	13,733	9,756
<b>Total</b>	<b>\$ 74,157</b>	<b>\$ 63,448</b>

**(a) Debt Service Reserve Fund**

As required by the 2011 Revenue Bonds and 2021A bonds, Howard maintains a debt service reserve fund in an amount greater than or equal to the Debt Service Fund Requirement of \$24,761 and \$13,074 as of June 30, 2021, and 2020, respectively. The assets in the debt service reserve fund consist primarily of cash, fixed income investments and other short-term securities.

**(b) Professional Liability**

Howard is involved in litigation arising in the ordinary course of business. Claims alleging malpractice that have been asserted against the Hospital and certain faculty physicians are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2021. It is the opinion of management based on the advice of actuaries and legal counsel that estimated malpractice costs accrued for fiscal years ended June 30, 2021 and 2020 of approximately \$49,699 and \$41,068, respectively is adequate to provide for losses resulting from probable asserted and unasserted claims and pending or threatened litigation. Professional liability is reported in reserve for self-insured liabilities on the statement of financial position.

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Professional liability activity is summarized as follows for fiscal years ended June 30, 2021 and 2020 in the table below.

<b>PROFESSIONAL LIABILITY</b>	<b>2021</b>	<b>2020</b>
Beginning balance	\$ 41,068	\$ 45,371
Malpractice claims expense	9,561	(2,209)
Settlement payments	(930)	(2,094)
<b>Ending balance</b>	<b>\$ 49,699</b>	<b>\$ 41,068</b>

**(c) Workers' Compensation**

Prior to July 1, 2012, Howard had established a revocable trust fund to partially provide for the satisfaction of its liability under applicable workers' compensation liability. The assets in the workers' compensation trust fund consisted of U.S. Treasury Bills and obligations, as well as domestic and foreign corporate bonds. As of June 30, 2021 and 2020, workers' compensation liabilities are being satisfied as claims arise. For fiscal years ended June 30, 2021 and 2020, Howard maintained \$5,125 in letters of credit, respectively, which serve as collateral for specific insurance carriers. Howard is self-insured for workers' compensation claims up to per occurrence retention of \$500. The excess is covered through commercial insurance.

For fiscal years ended June 30, 2021 and 2020 expenses related to workers' compensation were \$(771) and \$1,826, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately \$10,725 and \$12,624 at June 30, 2021 and 2020, respectively, and includes liabilities for claims covered under existing insurance policies. Workers' compensation liability claims is reported in reserve for self-insured liabilities on the statement of financial position. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. This liability is recorded on the accompanying consolidated statements of financial position in reserves for self-insured liabilities. Estimated claims for which payments will be covered under existing insurance policies were \$0 at June 30, 2021 and 2020, net of allowances for uncollectible amounts and are reflected in other receivables.

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**(d) Health Insurance**

Prior to July 1, 2012, Howard established a revocable self-insured trust fund for the purpose of partially funding group health benefits for its employees. The assets consisted primarily of investments in money market funds. As of June 30, 2021 and 2020, health insurance claims are being funded as incurred. Deposits to the fund are amounts withheld from employees' salaries and wages and Howard's contributions based on estimates established by the claims administrator. Disbursements from the fund are made in accordance with the payment plan established with the claims administrator. The total estimated liability for asserted and unasserted probable claims at June 30, 2021 and 2020, is approximately \$13,733 and \$9,756, respectively, and is reported in reserve for self-insured liabilities on the statement of financial position.

**8. Fair Value Measurements**

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

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

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Howard's financial assets and liabilities as of June 30, 2021 and 2020 are subject to fair value accounting. Fair value as of June 30, 2021 is as follows:

<b>FAIR VALUE AS OF JUNE 30, 2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Unexpended bond proceeds (5)	\$ -	\$ 78,636	\$ -	\$ 78,636
Deposits with trustees (6)	3,875	36,247	-	40,122
Other assets (7)	-	-	7,880	7,880
<b>Total assets (non investment)</b>	<b>\$ 3,875</b>	<b>\$ 114,883</b>	<b>\$ 7,880</b>	<b>\$ 126,638</b>
<b>Operating investments</b>				
Common Stock (3)	42,218	-	-	42,218
Equity Investment (7)	-	-	-	-
<b>Total operating investments</b>	<b>\$ 42,218</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 42,218</b>
<b>Restricted investments</b>				
Money Market Instrument (1)	-	409	-	409
Common Stock (3)	49,835	-	-	49,835
Mutual Fund	1,511	-	-	1,511
Private Equity (4)	-	-	1,478	1,478
Private Debt (4)	-	-	6,467	6,467
Real Estate (4)	-	-	2,385	2,385
<b>Total restricted investments</b>	<b>\$ 51,346</b>	<b>\$ 409</b>	<b>\$ 10,330</b>	<b>\$ 62,085</b>
<b>Endowment investments</b>				
Money Market Fund (1)	6,726	24,643	-	31,369
<b>Common/collective trusts</b>				
Emerging Market Equity (3)	-	30,314	-	30,314
Global Fixed Income Security (2)	-	-	-	-
International Equity Security (3)	-	59,134	-	59,134
<b>Common Stock (3)</b>	<b>71,369</b>	<b>-</b>	<b>-</b>	<b>71,369</b>
<b>Fixed income</b>				
Corporate Bond (2)	-	3	-	3
<b>Hedge funds</b>				
Equity Long/short (4)	-	37,522	-	37,522
Global opportunities (4)	-	20,522	-	20,522
Multi-strategy (4)	-	3,296	-	3,296
Credit Opportunities (4)	-	12,593	-	12,593
<b>Mutual funds investment</b>				
Domestic Common Stock (3)	55,903	-	-	55,903
Domestic Fixed Income (2)	81,295	-	-	81,295
International Equity Security (3)	10,538	-	-	10,538
<b>Private Equity and Venture Capital (4)</b>	<b>-</b>	<b>-</b>	<b>208,712</b>	<b>208,712</b>
<b>Private Debt (4)</b>	<b>-</b>	<b>-</b>	<b>94,848</b>	<b>94,848</b>
<b>Real estate (4)</b>	<b>-</b>	<b>-</b>	<b>88,585</b>	<b>88,585</b>
<b>Total endowment investments</b>	<b>\$ 225,831</b>	<b>\$ 188,027</b>	<b>\$ 392,145</b>	<b>\$ 806,003</b>
<b>Total investments</b>	<b>\$ 319,395</b>	<b>\$ 188,436</b>	<b>\$ 402,475</b>	<b>\$ 910,306</b>
Assets not subject to fair value reporting (8)	784	-	-	784
Liabilities not subject to fair value reporting (8)	(368)	-	-	(368)
<b>Total assets and liabilities measured at fair value</b>	<b>\$ 323,686</b>	<b>\$ 303,319</b>	<b>\$ 410,355</b>	<b>\$1,037,360</b>

Level 3 investments were 44% of total investments.

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Fair value as of June 30, 2020 is as follows:

FAIR VALUE AS OF JUNE 30, 2020	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Unexpended bond proceeds (5)	\$ -	\$ 3,172	\$ -	\$ 3,172
Deposits with trustees (6)	3,186	12,974	-	16,160
Other assets (7)	-	-	6,291	6,291
<b>Total assets (non investment)</b>	<b>\$ 3,186</b>	<b>\$ 16,146</b>	<b>\$ 6,291</b>	<b>\$ 25,623</b>
<b>Operating investments</b>				
Common Stock (3)	7,748	-	-	7,748
Equity Investment (7)	-	-	4,398	4,398
<b>Total operating investments</b>	<b>\$ 7,748</b>	<b>\$ -</b>	<b>\$ 4,398</b>	<b>\$ 12,146</b>
<b>Restricted investments</b>				
Money Market Instrument (1)	-	1,619	-	1,619
Common Stock (3)	34,049	-	-	34,049
Mutual Fund	1,204	-	-	1,204
Private Equity (4)	-	-	260	260
Private Debt (4)	-	-	7,861	7,861
Real Estate (4)	-	-	2,615	2,615
<b>Total restricted investments</b>	<b>\$ 35,253</b>	<b>\$ 1,619</b>	<b>\$ 10,736</b>	<b>\$ 47,608</b>
<b>Endowment investments</b>				
Money Market Fund (1)	496	13,874	-	14,370
<b>Common/collective trusts</b>				
Emerging Market Equity (3)	-	32,368	-	32,368
Global Fixed Income Security (2)	-	13,075	-	13,075
International Equity Security (3)	-	35,299	-	35,299
<b>Common Stock (3)</b>	<b>94,389</b>	<b>-</b>	<b>-</b>	<b>94,389</b>
<b>Fixed income</b>				
Corporate Bond (2)	-	4	-	4
<b>Hedge funds</b>				
Equity Long/short (4)	-	29,280	-	29,280
Global opportunities (4)	-	11,199	-	11,199
Multi-strategy (4)	-	15,923	-	15,923
Credit Opportunities (4)	-	17,328	-	17,328
<b>Mutual funds investment</b>				
Domestic Common Stock (3)	36,098	-	-	36,098
Domestic Fixed Income (2)	87,492	-	-	87,492
International Equity Security (3)	9,988	-	-	9,988
<b>Private Equity and Venture Capital (4)</b>	<b>-</b>	<b>-</b>	<b>122,167</b>	<b>122,167</b>
<b>Private Debt (4)</b>	<b>-</b>	<b>-</b>	<b>86,459</b>	<b>86,459</b>
<b>Real estate (4)</b>	<b>-</b>	<b>-</b>	<b>88,035</b>	<b>88,035</b>
<b>Total endowment investments</b>	<b>\$ 228,463</b>	<b>\$ 168,350</b>	<b>\$ 296,661</b>	<b>\$ 693,474</b>
<b>Total investments</b>	<b>\$ 271,464</b>	<b>\$ 169,969</b>	<b>\$ 311,795</b>	<b>\$ 753,228</b>
Assets not subject to fair value reporting (8)	21,081	-	-	21,081
Liabilities not subject to fair value reporting (8)	(2,106)	-	-	(2,106)
<b>Total assets and liabilities measured at fair value</b>	<b>\$ 293,625</b>	<b>\$ 186,115</b>	<b>\$ 318,086</b>	<b>\$ 797,826</b>

Level 3 investments were 41% of total investments.

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The following assumptions and estimates were used to determine fair value of each class of financial instruments listed above:

- (1) Money market instruments include investments in open ended mutual funds that invest in US treasury securities, US agency bonds, certificates of deposit and corporate bonds. Funds that are quoted daily in active markets are classified as Level 1. Funds that are not quoted daily with prices based on amortized cost are classified as Level 2.
- (2) For investments in government securities and corporate bonds, fair value is based first upon quoted market prices for those securities that can be classified as Level 1. For securities where an active market is not available, fair value is determined with reference to similar securities using market prices and broker quotes for similar instruments and are classified as Level 2.
- (3) Common stocks are largely valued based on the last sales price for identical securities traded on a primary exchange. These investments are classified as Level 1. Securities that trade infrequently, or that have comparable traded assets – that trade in either active or inactive markets - are priced using available quotes and other market data that are observable as of the reporting date and are classified as Level 2. Investments in comingled funds with underlying securities in common stock are classified as Level 2 because there is a readily determinable unit price and the units held can be redeemed in less than one month.
- (4) Alternative investments include Howard’s limited partnership interests, hedge funds, private equity and real estate and commodity funds. Trading in this class of funds is infrequent and, as a result, market values are not readily determinable. The investments in privately held funds are valued based on valuation techniques that consider each fund’s underlying assets and include valuation methods such as market, cost and income approaches. In accordance with ASC 820, *Fair Value Measurement*, which governs the classification of certain investments with the option of Net Asset Value redemption value as Level 2, Howard has classified qualifying investments in Hedge Funds and Commodity Funds as Level 2. These investments can be redeemed on a quarterly basis with a 30 to 90 days redemption notice period. Hedge Funds and Commodity Funds with liquidation terms in excess of 90 days are classified as Level 3. Limited partnerships including private equity and real estate funds and other non-redeemable funds are categorized as Level 3.

These investments cannot be redeemed or withdrawn prior to termination of the partnership. Instead, the distributions are received through liquidation of the underlying assets of the fund. No active market exists for these funds and their valuation is based on unobservable and/or significantly adjusted inputs



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using the best available information provided by the partnership, including management assumptions. Due diligence procedures performed by management indicate that the values reported are reasonable. These investments are classified as Level 3.

- (5) Unexpended bond proceeds include investments in government debt security funds. These funds are not quoted daily and are valued at amortized cost. These investments are classified as Level 2.
- (6) Deposits held with trustees, including workers' compensation, professional and general liability, health insurance and bond debt service deposits, are comprised primarily of money market instruments, US treasury securities, mortgage-backed securities and corporate bonds. Money market investments are classified as either Level 1 or Level 2 based on whether their prices are quoted daily. Investments in US treasury securities are classified as Level 1 and other fixed income securities are classified as Level 2.
- (7) Other assets represent the University's beneficial interest in certain trust assets held by third parties. The underlying trust assets are comprised of a variety of investments, primarily exchange-traded funds and corporate fixed income. The fair value of this interest has been measured using the income approach as there is no active principal market trading in this interest. This interest was valued using the quoted market value for the underlying marketable securities of the Trust discounted for expected future cash flows to the University. These interests are classified as Level 3 assets as the reported fair values are based on a combination of observable and unobservable inputs.
- (8) Assets and liabilities not subject to fair value reporting represent exchanges between the University and its investment managers that have been entered into but not settled by the reporting date of June 30, 2021. These transactions are shown net with endowment investments.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while Howard believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

During fiscal years 2021 and 2020, there were no transfers in or out of level 3 investments. Total additions to level 3 investments during 2021 and 2020 were \$93,005 and \$98,748, respectively. During the same period, total withdrawals were \$70,275 and \$65,717, respectively.

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Net investment income (loss) is summarized as follows for fiscal years June 30, 2021 and 2020:

<b>NET INVESTMENT INCOME (LOSS)</b>	<b>2021</b>	<b>2020</b>
Interest and dividends	\$ 26,324	\$ 15,342
Net realized gains	79,499	18,419
Net unrealized gains (losses)	100,418	1,540
Other investment income, net of expense	656	270
Investment expenses	(15,781)	(7,736)
<b>Net investment income</b>	<b>\$ 191,116</b>	<b>\$ 27,835</b>
Current year unrestricted operating return	\$ 3,455	\$ 582
Current year non-operating investment return:		
Without donor restriction	89,468	12,431
With donor restriction	98,193	14,822
<b>Total current year investment return</b>	<b>\$ 191,116</b>	<b>\$ 27,835</b>
Prior year return designated for current operations:		
Without donor restriction	(8,625)	(10,319)
With donor restriction	(12,277)	(14,216)
<b>Total designated for current operation</b>	<b>\$ (20,902)</b>	<b>\$ (24,536)</b>
<b>Net non-operating investment return:</b>		
Without donor restriction	81,253	2,112
With donor restriction	85,917	378

**Liquidity Terms and Unfunded Commitments** – The following tables represent Howard’s investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2021 and 2020. Real estate funds and limited partnerships do not have readily ascertainable market values and may be subject to withdrawal restrictions.

<b>INVESTMENTS AS OF JUNE 30, 2021</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption/Withdrawal Frequency</b>	<b>Redemption/Withdrawal Notice Period</b>
Hedge funds	\$ 73,933	\$ -	Monthly - Annually	45 - 90 days
Real estate funds	90,970	11,957	-	1 - 10 years
Common/collective trusts	89,448	-	Monthly	-
Limited partnerships	311,505	137,325	-	≤ 10 years

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<b>INVESTMENTS AS OF JUNE 30, 2020</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption/ Withdrawal Frequency</b>	<b>Redemption/ Withdrawal Notice Period</b>
Hedge funds	\$ 73,730	\$ -	Monthly - Annually	45 - 90 days
Real estate funds	90,650	24,188	-	1 - 10 years
Common/collective trusts	80,742	-	Monthly	-
Limited partnerships	216,748	127,595	-	≤ 10 years

## 9. Endowment Fund

Howard's endowment includes several individual accounts established to fund scholarships, professorships, student loans, general operations and other purposes. Howard is subject to the District of Columbia Uniform Prudent Management of Institutional Funds Act of 2008 (DC UPMIFA).

### Interpretation of Relevant Law

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

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

Any portion of the donor-restricted gift is classified as net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

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

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

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

The change in value and the composition of amounts classified as endowment as of June 30, 2021 is as follows:

<b>ENDOWMENT CHANGE IN VALUE FOR YEAR ENDING JUNE 30, 2021</b>	<b>WITHOUT DONOR RESTRICTIONS</b>	<b>WITH DONOR RESTRICTIONS</b>	<b>TOTAL</b>
<b>Endowment net assets, beginning of year</b>	<b>\$ 380,377</b>	<b>\$ 339,523</b>	<b>\$ 719,900</b>
Investment return:			
Investment income	9,984	13,881	23,865
Net appreciation (realized and unrealized)	77,556	72,053	149,609
<b>Total investment return</b>	<b>\$ 87,540</b>	<b>\$ 85,934</b>	<b>\$ 173,474</b>
Contributions	750	24,821	25,571
Appropriation of endowment assets for operations	(8,123)	(12,779)	(20,902)
Other changes:			
Transfer and other changes	(79,776)	126	(79,650)
<b>Endowment net assets, end of year</b>	<b>\$ 380,768</b>	<b>\$ 437,625</b>	<b>\$ 818,393</b>
Donor-restricted endowment funds	\$ -	\$ 438,199	\$ 438,199
Underwater endowment funds	-	(574)	(574)
Board designated quasi-endowment	380,768	-	380,768
<b>Endowment net assets, end of year</b>	<b>\$ 380,768</b>	<b>\$ 437,625</b>	<b>\$ 818,393</b>

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The change in value and the composition of amounts classified as endowment as of June 30, 2020 is as follows:

<b>ENDOWMENT CHANGE IN VALUE FOR YEAR ENDING JUNE 30, 2020</b>	<b>WITHOUT DONOR RESTRICTIONS</b>	<b>WITH DONOR RESTRICTIONS</b>	<b>TOTAL</b>
Endowment net assets, beginning of year	\$ 372,191	\$ 329,311	\$ 701,502
Investment return:			
Investment income	6,296	7,476	13,772
Net appreciation (realized and unrealized)	11,312	2,277	13,589
<b>Total investment return</b>	<b>\$ 17,608</b>	<b>\$ 9,753</b>	<b>\$ 27,361</b>
Contributions	341	14,678	15,019
Appropriation of endowment assets for operations	(9,814)	(14,721)	(24,535)
Other changes:			
Endowment withdrawals	-	-	-
Transfer and other changes	51	502	553
Change in underwater classification	-	-	-
<b>Endowment net assets, end of year</b>	<b>\$ 380,377</b>	<b>\$ 339,523</b>	<b>\$ 719,900</b>
Donor-restricted endowment funds	\$ -	\$ 343,431	\$ 343,431
Underwater endowment funds	-	(3,908)	(3,908)
Board designated quasi-endowment	380,377	-	380,377
<b>Endowment net assets, end of year</b>	<b>\$ 380,377</b>	<b>\$ 339,523</b>	<b>\$ 719,900</b>

The original gift amount and net appreciation of net assets with donor restrictions as of June 30, 2021 and 2020 is as follows:

<b>ENDOWMENT NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>2021</b>	<b>2020</b>
Original Gift	\$ 207,408	\$ 188,157
Net Appreciation	230,217	151,366
<b>Total</b>	<b>\$ 437,625</b>	<b>\$ 339,523</b>

Howard's endowment net assets include receivables related to the federal term endowment and contributions, which have not been invested and therefore not included as part of endowment investments. For fiscal years ended June 30, 2021 and 2020 receivables of \$11,974 and \$7,451, respectively were recorded, and represent the difference between endowment investments reflected on consolidated statements of financial position and endowment net assets reported above.

**Funds with Deficiencies** - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donors require Howard to retain as a fund of perpetual duration. Deficiencies of this nature, so called "underwater accounts", are reported in net assets with donor restriction and totaled \$574 and \$3,908 as of fiscal years ended June 30, 2021 and 2020, respectively. Howard has adopted a policy allowing spending in

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certain situations from underwater, donor-restricted endowment funds, absent overriding provisions in donor agreements. Howard's investment and spending policy is intended to conform with the UPMIFA which allows spending in underwater endowments, in support of an endowment's purpose.

<b>Funds with Deficiencies</b>	<b>2021</b>	<b>2020</b>
Fair value of underwater endowments	\$ 5,946	\$ 36,233
Original endowment gift amount	6,520	40,141
<b>Deficiencies of underwater endowment funds</b>	<b>\$ (574)</b>	<b>\$ (3,908)</b>

***Return Objectives and Risk Parameters*** - Howard has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to minimize the risk associated with obtaining such income streams. Endowment assets include those that the organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated endowment funds. Under these policies the endowment assets are invested through a diversified investment program designed to exceed the risk-adjusted performance of the market benchmark representative of each asset class over rolling five-to-seven-year periods. Howard's objective, over time, is to obtain an average total real rate of return (inflation adjusted) that exceeds its targeted distribution amount over rolling five-to-seven-year periods. Howard's investment strategy aims for a low to moderate level of investment risk. Actual returns in any given year may significantly vary from this objective.

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

***Spending Policy and How the Investment Objectives Relate to Spending Policy*** - Howard's spending policy allows for distribution each year of up to 4 percent of its endowment fund's market value, excluding Federal term and Islamic Funds, based upon a three-year moving average with the most recent year removed. In establishing this policy, Howard considered the long-term expected return on its endowment consistent with its general goal of facilitating the ability of endowments (specifically permanent and time specific endowments) to best fulfill the purposes for which they were designed.

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**10. Long-Lived Assets**

<b>LONG-LIVED ASSETS</b>	<b>2021</b>	<b>2020</b>
Land and land improvements	\$ 40,141	\$ 40,141
Buildings and building improvements	890,468	877,445
Property held for expansion	56,383	56,383
Property held under leases	33,428	33,373
Furniture and equipment	358,836	349,131
Library books	92,224	92,197
Works of art, historical treasures, literary works and artifacts	40,239	40,239
Software	106,451	122,007
Software in progress	12,135	303
Construction in progress	106,454	48,201
Long-lived assets, gross	1,736,759	1,659,420
Accumulated depreciation and amortization	(1,133,761)	(1,112,518)
<b>Long-lived assets, net</b>	<b>\$ 602,998</b>	<b>\$ 546,902</b>

For the fiscal year ended June 30, 2021 there were no sales, disposals and retirements. For the fiscal year ended June 30, 2020 there were \$1,962 in sales, disposals and retirements. There were no disposals of works of art, historical treasures, literary works and artifacts for either fiscal year presented.

Depreciation expense for the years ended June 30, 2021 and 2020 was \$31,210 and \$47,921, respectively. For fiscal years ended June 30, 2021 and 2020, net interest costs of \$1,876 and \$0 were incurred during construction and capitalized as part of the cost of capital projects.

Long-lived assets include property held for expansion, consisting of land and buildings acquired for future use in carrying out educational, research and other activities in line with the overall mission of Howard. Depreciation for buildings commences when property is converted to use. Long-lived assets include capitalization of donated artwork that is not subject to depreciation.

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**11. Accounts Payable and Accrued Expenses**

Components of this line item at June 30, 2021 and 2020 are as follows:

<b>ACCOUNTS PAYABLE AND ACCRUED EXPENSES</b>	<b>2021</b>	<b>2020</b>
Vendor invoices	\$ 89,932	\$ 65,796
Accrued salaries and wages	23,196	32,487
Accrued employee benefits	4,976	3,158
Accrued annual leave	6,160	4,744
Accrued interest	6,571	5,835
Other	1,246	1,451
<b>Total</b>	<b>\$ 132,081</b>	<b>\$ 113,471</b>

**12. Other Liabilities and Deferred Revenue**

These obligations include the following at June 30, 2021 and 2020:

<b>OTHER LIABILITIES</b>	<b>2021</b>	<b>2020</b>
Environmental liabilities	\$ 3,346	\$ 3,786
Residence halls	3,387	8,076
Unclaimed property	3,758	3,187
Student deposits and refunds	4,558	5,798
Reserve for legal contingencies	2,000	1,016
Deposits held in custody for others	2,436	2,639
Other	8,598	4,288
<b>Total</b>	<b>\$ 28,083</b>	<b>\$ 28,790</b>

<b>DEFERRED REVENUE</b>	<b>2021</b>	<b>2020</b>
Deferred tuition, room and board	\$ 4,960	\$ 3,825
Deferred grant revenue	30,415	16,178
Medicare advance payment	23,491	26,230
Deferred Federal funding	1,557	19,736
Deferred DC Surge Grant	157	2,940
Other	41	3,935
<b>Total</b>	<b>\$ 60,621</b>	<b>\$ 72,844</b>



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Amounts accrued for environmental liabilities at June 30, 2021 and 2020, were as follows:

<b>ENVIRONMENTAL LIABILITIES</b>	<b>2021</b>	<b>2020</b>
Accumulated depreciation	\$ -	\$ (4)
Environmental liabilities	3,346	3,786
<b>Total</b>	<b>\$ 3,346</b>	<b>\$ 3,782</b>

Environmental liabilities are reported in other liabilities on the statement of financial position. Howard incurred costs related to remediation during fiscal years ended June 30, 2021 and 2020 of \$440 and \$897, respectively.

### **13. Leases**

#### ***Lease Obligations***

In fiscal year 2016, Howard University elected to adopt ASC 842 – *Leases*. The new standard 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 (the underlying asset) for a period of time in exchange for consideration.

The primary difference between accounting for leases under ASC 840 and the new guidance under ASC 842 is the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases. Accordingly, Howard has recognized all lease assets and liabilities, with certain exceptions, on its statements of financial position. Both financing leases and operating leases create an asset (right-of-use or ROU asset) and a liability measured at the present value of the lease payments.

The classification criteria in ASC 842 for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under ASC 840. Under ASC 842, a lessee finance lease exists when any of the following criteria are met at lease commencement:

- The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.
- The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
- The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in

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accordance with paragraph 842-10-30-5(f) equals or exceeds substantially all of the fair value of the underlying asset.

- e. The underlying asset is of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term.

A lessor would classify a lease having any of the above characteristics as a sales-type lease.

If the lease has none of the above characteristics, then a lessee would classify the lease as an operating lease. A lessor would classify the lease as either an operating lease or a direct financing lease.

Howard measures its lease assets and lease liabilities using the discount rate implicit in the lease. If that rate is not available or readily determinable, Howard uses its incremental borrowing rate.

Howard elected to use the practical expedient election under ASC 842-10-15-37. The practical expedient election allows the lessee to elect by class to choose not to separate non-lease components from lease components and instead account for each lease component as a single lease.

#### ***Finance Leases***

In the 2017, Howard University entered into a seven-year network management service agreement with IBM for equipment that included an embedded lease. Howard determined that the lease is a finance type lease based on the transfer of ownership of the underlying assets, and the length of the lease term.

On May 26<sup>th</sup>, 2021 a lease amendment was executed with Rock Creek Property Group, LLC to allow for additional purchase options of the underlying asset, which Howard University is reasonably expected to exercise. As such, the Rock Creek lease agreement was adjusted and reclassified as a finance lease.

Howard is obligated under other finance leases for office, technology and medical equipment that extend through fiscal year 2025, the IBM lease that extends through fiscal year 2025 and the chiller plant that extends through fiscal year 2032, in the amounts of \$60,564 and \$46,999 respectively at fiscal years ended June 30, 2021 and 2020. Lease payments for the chiller plant include both fixed and variable payments. The variable payments are based upon consumption exceeding the threshold specified in the lease.

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Howard considered the likelihood of exercising renewal or termination terms in measuring its right-of-use lease assets and lease liabilities. Except for leases for certain medical equipment that will extend its useful life by the end of the lease, management reviews each lease option to modify terms on a case-by-case basis. The right-of-use assets are amortized over their estimated useful lives. The finance lease right-of-use assets and accumulated amortization for the fiscal years ended June 30 are as follows:

<b>FINANCE RIGHT OF USE ASSETS</b>	<b>2021</b>	<b>2020</b>
Right of use assets - financing	\$ 91,484	\$ 68,294
Accumulated amortization	(33,714)	(23,456)
<b>Finance right of use assets, net</b>	<b>\$ 57,770</b>	<b>\$ 44,838</b>

The discount rates used in measuring the finance right-of-use assets and liabilities are the rates implicit in the lease if readily determinable (if applicable) or Howard's incremental borrowing rate near the date of lease commencement.

At June 30, 2021, the future minimum lease payments under finance leases (with initial or remaining lease terms in excess of one year) are as follows:

<b>LEASE OBLIGATIONS</b>	<b>FINANCE LEASES</b>
Future principal and interest years ending June 30	
2022	\$ 12,327
2023	31,143
2024	9,581
2025	3,216
2026	2,286
2027 and thereafter	13,814
Obligation, gross	72,367
Amounts representing interest rates from 2% to 10%	(11,803)
<b>Total lease obligations, net</b>	<b>\$ 60,564</b>

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At June 30, 2021, the minimum interest payments under finance leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follows:

<b>LEASE OBLIGATIONS – INTEREST</b>	<b>FINANCING LEASES</b>
Future interest years ending June 30	
2022	\$ 2,964
2023	2,493
2024	1,410
2025	1,068
2026	954
2027 and thereafter	2,914
<b>Total lease obligations interest</b>	<b>\$ 11,803</b>

***Operating Leases***

Howard has several non-cancelable operating leases for broadcast antennas, equipment and a vehicle fleet that extend through 2029.

Rent expense is recognized on a straight-line basis and is allocated in the statements of activities by function. Rent expense related to building space and equipment for fiscal years ended June 30, 2021 and 2020 was \$911 and \$1,432, respectively. Howard considered the likelihood of exercising renewal or termination terms in measuring its right-of-use lease assets and lease liabilities and has included renewal periods in its assessment of lease terms. The right-of-use assets are amortized over their estimated useful lives. The operating lease right-of-use assets and accumulated amortization for the fiscal years ended June 30 are as follows:

<b>OPERATING RIGHT OF USE ASSETS</b>	<b>2021</b>	<b>2020</b>
Right of use assets - financing	\$ 6,736	\$ 7,792
Accumulated amortization	(1,664)	(1,583)
<b>Operating right of use assets, net</b>	<b>\$ 5,072</b>	<b>\$ 6,209</b>

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As of June 30, 2021 the minimum future payments under operating leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, are as follows:

<b>LEASE OBLIGATIONS</b>	<b>OPERATING LEASES</b>
Future principal and interest years ending June 30	
2022	\$ 879
2023	874
2024	867
2025	887
2026	915
2027 and thereafter	2,104
Obligation, gross	\$ 6,526
Amounts representing interest rates from 2% to 10%	(1,114)
<b>Total lease obligations, net</b>	<b>\$ 5,412</b>

<b>LEASE OBLIGATIONS - INTEREST</b>	<b>OPERATING LEASES</b>
Future interest years ending June 30	
2022	\$ 259
2023	228
2024	196
2025	163
2026	126
2027 and thereafter	142
<b>Total lease obligations Interest</b>	<b>\$ 1,114</b>

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Certain additional supplemental quantitative information as required under ASC 842 is as follows for the fiscal years ended June 30:

<b>LEASE EXPENSE</b>	<b>2021</b>	<b>2020</b>
Finance lease expense:		
Amortization of right of use assets	\$ 11,419	\$ 8,729
Interest on lease liabilities	3,504	3,342
Operating lease expense	911	1,432
<b>Total</b>	<b>\$ 15,834</b>	<b>\$ 13,503</b>
<b>Other information</b>		
Cash paid for amounts included in the measurements of lease liabilities for finance leases:		
Operating cash flows	\$ 847	\$ 1,094
Financing cash flows	8,388	7,909
Change in operating right of use (ROU) leases:		
Operating cash flows	(1,075)	(1,474)
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	61,341	68,294
Operating leases	5,072	6,209
Weighted-average remaining lease term (in years):		
Finance leases	10.33	6.25
Operating leases	7.08	6.98
Weighted-average discount rate:		
Finance leases	10.23%	6.67%
Operating leases	5.01%	4.71%

***Operating Lease Agreement - Benning Road***

In fiscal year 2019, the University entered a nine and a half (9.5) year sub-sublease for approximately 5,800 square feet in a healthcare building leased by Unity Health Care, Inc (Unity), to service additional patients. The University will pay Unity annual rent in the amount of \$180 in equal monthly installments payable on the first day of each calendar month during the term of the lease. There are rent escalators after year two of this lease. This lease is defined as an operating lease under ASC 842-10-25 because none of the five criteria were met that would trigger the recognition of a finance lease. Howard occupied the space in November 2020.

***Lessor Leases***

A lease conveys the right to use an identified asset for a period. The University assesses all its rental contracts using the provisions within ASC 842 to determine if they meet the criteria of a sales type lease. For leases that meet the sales type criteria, the University removes the underlying assets from the statement of financial position and recognizes revenue in accordance with the terms specified in the agreement. Leases that do not

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meet the criteria are defined and treated as operating leases. The University recognizes earned rental income on a straight-line basis, while the underlying leased assets remain on the University's statement of financial position and are continuously depreciated.

#### ***Lessor Sales-Type Leases***

##### **Effingham Apartments**

Howard University as lessor has executed a 99-year ground lease with Rock Creek – Bison LLC, a District of Columbia limited liability company on May 27, 2021 to lease 2711-2719 Georgia Ave., NW, Washington, D.C. The lease proceeds, after accounting for fees and taxes, were a one-time payment of \$4,486. Howard evaluated this lease as a sales type lease under ASC 842-10-25-3 after considering the present value of the minimum lease payments relative to the fair value of the underlying value of the asset.

##### **Howard Manor**

In fiscal year 2020, Howard University as lessor has executed a 99-year lease with the Manor Lessee LLC (Manor) on June 30, 2020 to lease the approximately 75,000 square foot building at 654 Girard Street, NW, Washington, DC. The lease proceeds were a one-time payment of \$3,000 and annual rent of \$120 per year with an annual 2.25% rent increase. The underlying building and land has a fair market value of \$4,660. Howard evaluated this lease as a sales type lease under ASC 842-10-25-3 after considering the present value of the minimum lease payments relative to the fair value of the underlying value of the asset.

##### **Shining Stars**

In fiscal year 2020, Howard University as lessor has executed a 45-year lease with the Shining Stars Montessori Academy Public Charter School (Shining Stars) on June 30, 2020 to lease the 28,767 square foot building at 1240 Randolph Street, NE, Washington, DC. The lease proceeds are a one-time payment of \$7,500 and \$3,500 due over a 25-year amortization period with an interest charge of 5% per annum. A balloon payment is due to Howard at the end of the 16th year of the lease term for all amounts due. Howard evaluated this lease as a sales type lease under ASC 842-10-25-3 as the present value of the minimum lease payments is substantially higher than the fair value of the underlying value of the asset.

##### **PY Leases**

In prior years, Howard has entered into similar sales type leases as above related to: certain property at 9<sup>th</sup> and V Street and the related meaningful connection to the 930 Club; and certain floors of the Howard Center, known as Lot 36, Square 3065 at 2225 Georgia Avenue, NW, Washington, DC.

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### *Lessor Operating Leases*

Howard has several operating leases for retail and commercial space for which rent payments are fixed at the time of lease commencement. Howard considers the likelihood of its tenants exercising renewal or termination terms in its leases, based upon prior renewals or extensions, sales and revenue forecasts, etc. in determining the ultimate term of the lease. Some tenants have the option of re-negotiating a new agreement upon the termination of the lease or extending the terms in the current lease. Termination terms are explicitly stated in each lease agreement. Lease payments are governed by the lease agreement and are generally fixed, although some lease agreements provide for payment escalations based on CPI. Howard only includes consideration for lease components in its determination of lease payments.

Howard's leased properties are comprised of (1) the Wonder Plaza Building, (2) space available on the top of certain buildings, and (3) the ground lease of Barry Place. Other standalone buildings owned by Howard are leased to private companies such as (4) a public charter school, (5) a car rental company, (6) a pharmacy, and (7) the Harriett Tubman Quadrangle. Howard also leases space in the Hospital to a large private pharmacy.

Howard's leases do not have any provisions for tenants to purchase the underlying asset being leased at the end of the lease term, or that provide for residual value guarantees.

Howard University receives rental income under these lease agreements, which have termination dates through 2024 and thereafter. The total lease income received for fiscal years ended June 30, 2021 and 2020 was \$5,517 and \$25,502, respectively and are reported in real property revenue on the statements of activities.

LEASE INCOME	2021	2020
<i>Sales Type Lease Income</i>		
Lease income	\$ 2,069	\$ 22,727
Less: leased assets book values	-	618
Total sales type lease income	\$ 2,069	\$ 22,109
<i>Operating Lease Income</i>	3,448	3,393
<b>Total lease income</b>	<b>\$ 5,517</b>	<b>\$ 25,502</b>



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As of June 30, 2021, the future minimum lease income for years ending at June 30 is as follows:

<b>FUTURE MINIMUM LEASE INCOME</b>	<b>JUNE 30</b>
2022	\$ 1,139
2023	1,119
2024	955
2025	870
2026	665
2027 and thereafter	19,079
<b>Total minimum lease income receipts</b>	<b>\$ 23,827</b>

## 14. Bonds Payable and Notes Payable

(a) ***Bonds Payable***

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

<b>BONDS PAYABLE</b>	<b>2021</b>	<b>2020</b>
<i>District of Columbia issues:</i>		
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	\$ 3,968	\$ 4,736
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	-	192,145
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035	49,325	52,450
2020A Taxable bonds 2.42% to 3.00% Serial due 2021 through 2031	146,900	146,900
2020B Taxable bonds 1.99% to 3.48% Serial due 2021 through 2042	209,085	-
2021A Revenue bonds, 3.89% to 4.76% Serial due 2021 through 2051	151,285	-
<b>Total bonds payable, gross</b>	<b>\$ 560,563</b>	<b>\$ 396,231</b>
Unamortized bond discount	(3,667)	(5,207)
Unamortized bond issuance costs	(9,797)	(6,210)
<b>Total bonds payable, net</b>	<b>\$ 547,099</b>	<b>\$ 384,814</b>

(1) **2010 Revenue Bonds**

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

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**(2) Defeasance of 2011A Series Revenue Bonds and Issuance of Series 2020B Taxable Bonds**

In July 2020 the University issued taxable bonds, Series 2020B in the aggregate principal of \$209,085 (the "Series 2020B Bonds"), to (i) effect the refunding of the District of Columbia Revenue Bonds (Howard issued Series 2011A) and (ii) pay for the cost of issuance related to the Series 2020B Bonds. The net proceeds of the 2020B bonds (after payment of underwriting fees and issuance costs) were used to purchase securities which, along with cash, were deposited with an escrow agent to provide all future debt service payments owed to holders of the Series 2011A bonds through 2041. As a result, the 2011A series bonds are defeased and the liability for those bonds and related unamortized deferred financing costs have been removed from the consolidated financial statements.

The Series 2020B bonds bear interest between 1.99% to 3.48% and are repayable between 2025 and 2041.

**(3) 2011B Taxable Bonds**

In April 2011, Howard issued \$65,065 of Series 2011B bonds to refund the Series 1998 and Series 2006 bonds and to finance new capital improvements. The Series 2011B bonds bear interest between 4.31% and 7.63% and are repayable from 2015 to 2035. The average coupon rate is 6.57%. The 2011 bonds require Howard to maintain a debt service fund of \$12,634. At the fiscal year ended June 30, 2021 the fund balance was \$24,761.

The Series 2011B Bonds are subject to optional redemption prior to maturity in whole or in part on any Business Day at the Make-Whole Redemption Price at the direction of Howard.

**(4) Series 2020A Taxable Bonds**

In February 2020, Howard issued the Series 2020 Taxable Bonds in the amount of \$146,900. The bonds bear interest between 2.42% to 3.00% and are repayable between 2021 and 2031. The proceeds of the Series 2020 Bonds were used to repay and settle the total outstanding principal amount of the Series 2016 Revenue Bonds. Howard received a more favorable interest rate with the 2020 bonds compared to the 2016 bonds.

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(5) **Series 2021A Revenue Bonds**

In March 2021, the University issued The Howard University Taxable Bonds, Series 2021A in the amount of \$151,285. The proceeds of the Series 2021A bonds will be used to finance a new steam generation plant on the University's Main Campus, a distribution system, and related expenses (the "Project"), including repayment of an outstanding \$26,000 bridge loan and accrued interest that funded portions of the Project. The bonds bear interest between 3.89% to 4.76% and are repayable between 2032 and 2051. As security for its payment obligations, the University will grant to the Trustee for the benefit of the Bondholders a first priority party lien upon its Pledge Revenues.

(6) **Fair Value of Bonds**

Currently the estimated fair value of Howard's bonds is determined based on quoted market prices. At fiscal years ended June 30, 2021 and 2020, the estimated fair value was approximately \$608,726 and \$401,711, respectively. Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of judgment. Howard is not required to settle its debt obligations at fair value and settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding tax-exempt debt.

(b) ***Line of Credit***

In June 2016, Howard entered a \$75,000 JP Morgan Revolving Credit Agreement which was subsequently amended to increase the commitment to \$150,000 during the year ended June 30, 2020. The Revolving Credit Agreement was further amended on November 5, 2021 to extend the termination date from December 31, 2021 to December 31, 2024.

There was no outstanding balance at June 30, 2021 and 2020. Howard is paying a quarterly non-refundable unutilized commitment fee at a rate of 2.30%.

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(c) ***Compliance with Contractual Covenants***

The Series 2011B, Series 2020A, Series 2020B, Series 2021A Bonds and Revolving Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2021.

COVENANT	INSTRUMENT	MEASUREMENT DATE	CRITERIA
Debt Service Coverage Ratio	2011B Revenue Bond	June 30 each year	1.10:1.00
Debt Service Coverage Ratio	2020A & 2020B Taxable Bonds	June 30 each year	1.10:1.00
Debt Service Coverage Ratio	2021A Revenue Bonds	June 30 each year	1.10:1.00
Liquidity Ratio	Revolving Credit Agreement	Quarterly	\$160 million

As of June 30, 2021 and 2020, Howard was compliant with the Debt Service Coverage Ratio measurements for the 2011B, 2020A, 2020B and 2021A Revenue Bonds and the Liquidity Ratio for Revolving Credit Agreement.

The University has pledged revenue for payment obligations to the Series 2020 bondholders. "Pledged Revenues" consist of all gross revenues of the University (including all undergraduate and graduate schools and colleges) derived from (i) tuition (net of student financial aid provided by the University) and (ii) certain fees (other than tuition) collected from or on behalf of students for the purpose of supporting student instruction and administrative costs related thereto. Pledged Revenues will not include any revenues of the University associated with room and/or board, special purpose fees such as health and wellness fees, or net patient service revenue generated from operation of HUH. Pledged Revenues excludes any revenues generated from clinical services related to HUH and the University's federal appropriation.

The Series 2020A, Series 2020B, and Series 2021A Bonds are also secured by the Restricted Academic Property. Restricted Academic Property consists of the properties on the Main Campus of the University for so long as any such property is actively in-use for the principal purpose of instruction, research, student activity or academic administration. The properties on the Main Campus that constitute Restricted Academic Property consist of the following:

1. Classroom Building #4, used primarily by the School of Business and located at 2600 6th Street, NW
2. Mackey Building, used primarily by the Department of Architecture and located at 2366 6th Street, NW
3. Downing Building, used primarily by the Department of Engineering and located at 2300 6th Street, NW

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The University has pledged certain rent and lease income as collateral for the JP Morgan line of credit.

### (d) **Scheduled Bond Repayments**

The scheduled principal repayments of bonds payable are as follows:

<b>AGGREGATE ANNUAL MATURITIES</b>	<b>2021</b>
2022	\$ 12,242
2023	12,593
2024	12,966
2025	24,727
2026	24,835
2027 and thereafter	473,200
<b>Total</b>	<b>\$ 560,563</b>

## 15. Retirement Plans

**Employee Retirement Plan** - Howard has a noncontributory defined benefit pension plan (the Plan) that was available to substantially all full-time employees. In accordance with government funding regulations, Howard's policy is to make annual contributions to the Plan at least equal to the minimum contribution. Based upon years of service and other factors, the Plan's benefit formula provides that eligible retirees receive a percentage of their final annual pay, based upon years of service and other factors. Plan assets consist primarily of common equity securities, U.S. Treasury securities, corporate bonds, and private investment funds. Effective July 1, 2010, the Plan no longer accrues benefits and is closed to new participants.

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

**Supplemental Retirement Plan** - Howard also has a supplemental retirement plan available to certain retired executives. The plan is noncontributory, unfunded and has a June 30 measurement date. The projected benefit obligation is \$694 and \$1,025 at fiscal years ended June 30, 2021 and 2020, respectively. The amounts not yet reflected in operating expenses, but included in net assets without donor restrictions pertain to accumulated losses of \$352 and \$670 at June 30, 2021 and 2020, respectively. The actuarial cost method and the assumption on discount rate used to determine the benefit obligation and net periodic cost in the actuarial valuation for the year ended

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June 30, 2021 are consistent with the method and assumptions used for the defined benefit pension plan.

**Savings Plan** – Howard offers employees a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible employees received a contribution of 6% of base salary and are also permitted to contribute up to 15% of their base pay to the plan. The administration of the plan is provided by three active financial administrators: Teachers Insurance and Annuity Association/College Retirement Equities Fund, American International Group – Variable Annuity Life Insurance Company, and Voya Financial. Effective July 1, 2011 Lincoln Financial was replaced as a financial administrator by Voya Financial. While Lincoln Financial is no longer an active financial administrator of Howard, employees with investments with Lincoln are still allowed to hold their investments with Lincoln Financial. These administered plans provide additional retirement benefits including the purchase of annuity contracts for eligible employees. Total costs recognized in the consolidated statements of activities were \$21,836 and \$21,396 for fiscal years ended June 30, 2021 and 2020, respectively.

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

Howard recognizes a plan's overfunded or underfunded status as an asset or liability, with an offsetting adjustment to unrestricted net assets. The reconciliation of the Plan's funded status to amounts recognized in the consolidated financial statements at fiscal years ended June 30, 2021 and 2020 are as follows:

Retirement Benefits	Pension		Medical and Life Insurance		Supplemental	
	2021	2020	2021	2020	2021	2020
<b>Change in benefit obligation</b>						
Projected benefit obligation at beginning of year	\$ 712,241	\$ 696,180	\$ 50,441	\$ 49,121	\$ 1,025	\$ 1,358
Service cost	-	-	297	241	-	-
Interest cost	19,763	24,339	1,418	1,722	27	45
Actuarial loss/(gain)	8,271	33,022	1,331	1,747	(227)	(173)
Benefits paid	(41,530)	(41,300)	(4,037)	(2,834)	(131)	(205)
Medicare Part D subsidy	-	-	54	-	-	-
Employee contributions	-	-	260	444	-	-
<b>Projected benefit obligation at end of period</b>	<b>\$ 698,745</b>	<b>\$ 712,241</b>	<b>\$ 49,764</b>	<b>\$ 50,441</b>	<b>\$ 694</b>	<b>\$ 1,025</b>
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of year	\$ 544,592	\$ 539,158	\$ -	\$ -	\$ -	\$ -
Actual return on plan assets	106,403	29,191	-	-	-	-
Employer contributions	80,000	17,543	3,723	2,390	-	-
Employee contributions	-	-	260	444	131	205
Medicare Part D subsidy	-	-	54	-	-	-
Benefits paid	(41,530)	(41,300)	(4,037)	(2,834)	(131)	(205)
<b>Fair value of plan assets at end of period</b>	<b>\$ 689,465</b>	<b>\$ 544,592</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total</b>	<b>\$ (9,280)</b>	<b>\$ (167,649)</b>	<b>\$ (49,764)</b>	<b>\$ (50,441)</b>	<b>\$ (694)</b>	<b>\$ (1,025)</b>

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Components of net periodic benefit cost and other amounts recognized in net assets without donor restrictions at fiscal years ended June 30, 2021 and 2020:

Retirement Benefits	Pension		Medical and Life Insurance		Supplemental	
	2021	2020	2021	2020	2021	2020
<b>Recognized in Statement of Activities:</b>						
Service cost	\$ -	\$ -	\$ 297	\$ 241	\$ -	\$ -
Interest cost	19,763	24,339	1,418	1,722	27	45
Amortization of prior service cost	100	100	(1,489)	(1,489)	92	122
Amortization of net actuarial loss	12,383	11,020	441	382	-	-
Expected return on plan assets	(31,179)	(30,637)	-	-	-	-
<b>Net periodic benefit cost</b>	<b>\$ 1,067</b>	<b>\$ 4,822</b>	<b>\$ 667</b>	<b>\$ 856</b>	<b>\$ 119</b>	<b>\$ 167</b>
Net actuarial loss (gain) during the year	(66,954)	34,468	1,331	1,747	(227)	(173)
Amortization of prior service cost	(100)	(100)	1,489	1,489	-	-
Amortization of net actuarial loss	(12,383)	(11,020)	(441)	(382)	(92)	(122)
<b>Total change in funded status or obligation</b>	<b>\$ (79,437)</b>	<b>\$ 23,348</b>	<b>\$ 2,379</b>	<b>\$ 2,854</b>	<b>\$ (319)</b>	<b>\$ (295)</b>
<b>Total recognized in Statements of Activities</b>	<b>\$ (78,370)</b>	<b>\$ 28,170</b>	<b>\$ 3,046</b>	<b>\$ 3,710</b>	<b>\$ (200)</b>	<b>\$ (128)</b>

Amounts included in net assets without donor restriction at fiscal years ended June 30, 2021 and 2020:

Retirement Benefits	Pension		Medical and Life Insurance	
	2021	2020	2021	2020
Net actuarial loss	\$ (258,689)	\$ (325,598)	\$ (3,358)	\$ (2,468)
Prior service cost	(2,001)	(2,201)	2,679	4,168
<b>Total</b>	<b>\$ (260,690)</b>	<b>\$ (327,699)</b>	<b>\$ (679)</b>	<b>\$ 1,700</b>

The estimated net actuarial loss, prior service cost/(credit), and transition obligation for the pension and post-retirement plans that are projected to be accounted for as a part of net periodic benefit cost over the next fiscal year are \$11,653, (\$1,589), and \$0, respectively.

Contributions to the pension plan of \$80,000 and \$17,543 were made in fiscal years ended June 30, 2021 and 2020, respectively. No contributions are projected for fiscal year 2022.

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2021 and 2020 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2021	2020	2021	2020
Discount rate	2.89%	2.87%	2.95%	2.92%
Expected return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase	-	-	3.50%	3.50%

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The weighted average assumptions used to determine net periodic cost in the actuarial valuations for fiscal years ended June 30, 2021 and 2020 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2021	2020	2021	2020
Discount rate	2.87%	3.62%	2.92%	3.64%
Expected return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase	-	-	3.50%	3.50%

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

Pension plan investments as of June 30, 2021 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>Pension Plan Investments</b>				
<b>Assets:</b>				
Money Market Instrument (1)	\$ -	\$ 21,734	\$ -	\$ 21,734
Commingled Funds				
Emerging Market Equity (3)	-	10,179	-	10,179
International Equity-Developed (3)	-	29,578	-	29,578
Common Stock (3)	101,939	-	-	101,939
Fixed Income				
Mortgage Backed Securities (2)	-	1,410	-	1,410
Corporate Bond (2)	-	92,207	-	92,207
Government Bond (2)	49,607	-	-	49,607
Hedge Fund				
Credit Opportunities (4)	-	8,882	-	8,882
Equity Long/short (4)	-	24,402	-	24,402
Global opportunities (4)	-	8,308	-	8,308
Mutual Fund				
Domestic Common Stock (3)	45,328	-	-	45,328
Domestic Fixed Income (2)	91,099	-	-	91,099
Private Equity and Venture Capital (4)	-	-	89,734	89,734
Private Debt (4)	-	-	47,791	47,791
Real Estate (4)	-	-	58,577	58,577
<b>Total assets</b>	<b>\$ 287,973</b>	<b>\$ 196,700</b>	<b>\$ 196,102</b>	<b>\$ 680,775</b>
<b>Liabilities:</b>				
Financial Derivatives – Option Contracts	\$ -	\$ (507)	\$ -	\$ (507)
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ (507)</b>	<b>\$ -</b>	<b>\$ (507)</b>
<b>Total pension plan investments</b>	<b>\$ 287,973</b>	<b>\$ 196,193</b>	<b>\$ 196,102</b>	<b>\$ 680,268</b>
Operating asset not subjected to fair value reporting	33,316	-	-	33,316
Operating liabilities not subjected to fair value reporting	(24,118)	-	-	(24,118)
<b>Total plan assets</b>	<b>\$ 297,171</b>	<b>\$ 196,193</b>	<b>\$ 196,102</b>	<b>\$ 689,466</b>

Level 3 investments were 28% of total plan investments.

Refer to Note 7 – Fair Value Measurements for further explanation of financial instrument classifications.



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Pension plan investments as of June 30, 2020 were as follows:

<b>PENSION PLAN INVESTMENTS AS OF JUNE 30, 2020</b>	<b>LEVEL 1</b>	<b>LEVEL 2</b>	<b>LEVEL 3</b>	<b>TOTAL</b>
<b>Pension Plan Investments</b>				
<b>Assets:</b>				
Money Market Instrument (1)	\$ -	\$9,110	\$ -	\$ 9,110
Commingled Funds				
Emerging Market Equity (3)	-	9,770	-	9,770
International Equity-Developed (3)	-	21,616	-	
Common Stock (3)	46,177	-	-	46,177
Fixed Income				
Mortgage Backed Securities (2)	-	6,809	-	6,809
Corporate Bond (2)	-	70,294	-	70,294
Government Bond (2)	18,844	-	-	18,844
Hedge Fund				
Credit Opportunities (4)	-	11,470	-	11,470
Equity Long/short (4)	-	19,190	-	19,190
Global opportunities (4)	-	8,143	-	8,143
Mutual Fund				
Domestic Common Stock (3)	50,384	-	-	50,384
Domestic Fixed Income (2)	102,683	-	-	102,683
Private Equity and Venture Capital (4)	-	-	70,548	70,548
Private Debt (4)	-	-	42,737	42,737
Real Estate (4)	-	-	60,279	60,279
<b>Total assets</b>	<b>\$ 218,088</b>	<b>\$ 156,402</b>	<b>\$ 173,564</b>	<b>\$ 548,054</b>
<b>Liabilities:</b>				
Financial Derivatives – Option Contracts	\$ -	\$ (5,114)	\$ -	\$ (5,114)
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ (5,114)</b>	<b>\$ -</b>	<b>\$ (5,114)</b>
<b>Total pension plan investments</b>	<b>\$ 218,088</b>	<b>\$ 151,288</b>	<b>\$ 173,564</b>	<b>\$ 542,940</b>
Operating asset not subjected to fair value reporting	36,384	-	-	36,384
Operating liabilities not subjected to fair value reporting	(27,748)	-	-	(27,748)
<b>Total plan assets</b>	<b>\$ 226,724</b>	<b>\$ 151,288</b>	<b>\$ 173,564</b>	<b>\$ 551,576</b>

Level 3 investments were 31% of total plan investments.

Refer to Note 7 – Fair Value Measurements for further explanation of financial instrument classifications.

During fiscal years 2021 and 2020, there no transfers in or out of level 3 investments. Total additions to level 3 investments during the year 2021 and 2020 were \$24,902 and \$50,072, respectively. During the same period, total withdraws were \$39,580 and \$39,644.

# THE HOWARD UNIVERSITY

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**Pension Plan Liquidity Terms and Unfunded Commitments** – The following tables represent Howard’s investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2021 and 2020. Real estate funds and limited partnerships do not have readily ascertainable market values and may be subject to withdrawal restrictions.

<b>INVESTMENTS AS OF JUNE 30, 2021</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption/ Withdrawal Frequency</b>	<b>Redemption/ Withdrawal Notice Period</b>
Hedge funds	\$ 41,592	\$ -	Monthly - Annually	45 - 90 days
Real estate funds	58,577	6,939	-	1 – 5 years
Common/collective trusts	39,757	-	Monthly	-
Limited partnerships	137,525	45,297	-	≤ 10 years

<b>INVESTMENTS AS OF JUNE 30, 2020</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption/ Withdrawal Frequency</b>	<b>Redemption/ Withdrawal Notice Period</b>
Hedge funds	\$ 38,803	\$ -	Monthly - Annually	45 - 90 days
Real estate funds	60,278	13,986	-	1 – 5 years
Common/collective trusts	81,785	-	Monthly	-
Limited partnerships	113,286	57,068	-	≤ 10 years

The asset allocation of the Plan is analyzed annually to determine the need for rebalancing to maintain an allocation that is within the allowable ranges. The investment strategy is to invest in asset classes that are negatively correlated to minimize overall risk in the portfolio. Interim targets outside of the allowable ranges were set to allow for flexibility in reaching the long-term targets in the private equity and real estate categories.

The actual allocation of the Plan for June 30, and the allowable range is as follows:

<b>PENSION PLAN ASSET ALLOCATION</b>	<b>2021</b>	<b>2020</b>	<b>Allowable Range</b>
Mid-Large Cap U.S. Equity	15.4%	14.8%	7-23%
Small Cap U.S. Equity	6.3%	2.9%	1-5%
International Equity - Developed	4.3%	4.0%	7-17%
Private Equity/Venture Capital	10.0%	9.9%	2-20%
Private Debt	6.9%	6.6%	2-8%
Hedge Funds	6.0%	7.1%	1-5%
Inflation Hedging	3.0%	3.5%	1-5%
Emerging Markets Equity	3.4%	2.6%	2-8%
Real Estate	8.5%	10.1%	3-11%
Liability Hedging Assets	29.7%	38.0%	25-45%
Cash and Cash Equivalents	6.5%	0.5%	0-5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	

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The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2021 is 5.79% This growth rate was assumed to decrease gradually to 4.00% in 2046 and to remain at this level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

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

EXPECTED FUTURE BENEFIT PAYMENTS	PENSION BENEFITS	POST-RETIREMENT BENEFITS		
		EXCLUDING SUBSIDY	SUBSIDY PAYMENTS	NET OF SUBSIDY
Year ending June 30:				
2022	\$ 48,592	\$ 3,706	\$ 98	\$ 3,608
2023	47,970	3,625	92	3,533
2024	47,162	3,522	86	3,436
2025	46,239	3,452	80	3,372
2026	45,290	3,381	74	3,307
Years 2027-2031	206,232	15,688	290	15,398
<b>Total</b>	<b>\$ 441,485</b>	<b>\$ 33,374</b>	<b>\$ 720</b>	<b>\$ 32,654</b>

The mortality retirement rates base table used Pri-2012 Mortality Table without collar adjustment projected using the MP-2020 Mortality Improvement Scale.

If eligible, participants are assumed to retire according to the following schedule:

RETIREMENT AGE	ASSUMED RATE OF RETIREMENT
55 - 60	5%
61 - 63	12%
64	16%
65	25%
66 - 69	16%
70+	100%

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**16. Net Assets**

Net assets with donor restrictions are restricted for the following purposes as follows at June 30:

<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>2021</b>	<b>2020</b>
<b>Subject to expenditure or use for specified purpose:</b>		
Scholarships	\$ 59,686	\$ 22,991
Professorships	20,588	18,990
Student loans	2,951	2,714
Federal term endowment	203,842	165,559
General operations and other	61,013	39,605
<b>Total subject to expenditure for specified purpose</b>	<b>\$ 348,080</b>	<b>\$ 249,859</b>
<b>Funds subject to time restrictions and to be held in perpetuity:</b>		
Subject to time restrictions	\$ 7,257	\$ 5,882
To be held in perpetuity	224,049	165,795
<b>Total funds to be held in perpetuity and subject to time restriction</b>	<b>\$ 231,306</b>	<b>\$ 171,677</b>
<b>Endowments subject to spending policy and appropriation:</b>		
Scholarships	\$ 65,308	\$ 41,617
Professorships	30,459	20,844
Student loans	(13)	(234)
General operations and other	8,936	5,311
<b>Total endowments subject to spending policy and appropriation</b>	<b>\$ 104,690</b>	<b>\$ 67,538</b>
<b>Total net assets with donor restrictions</b>	<b>\$ 684,076</b>	<b>\$ 489,074</b>

The Federal term endowment restriction is for 20 years for each contribution beginning in 1985. Howard transfers the amount of the original contribution plus accumulated investment returns to net assets without donor restriction at the end of each 20-year period. For fiscal years ended June 30, 2021 and 2020, there were no transfers.

For the fiscal years ended June 30, 2021 and 2020, net assets without donor restriction were \$453,292 and \$211,353, respectively. Net assets without donor restrictions include board-designated and non-board-designated amounts. Any revenue or expense transactions funded by contributions or sources that have no external donor restrictions are classified as non-board designated amounts.

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Net assets without donor restrictions include the following at June 30:

<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	<b>2021</b>	<b>2020</b>
Non-board designated	\$ 72,523	\$ 176,815
Board designated	380,769	34,538
<b>Total</b>	<b>\$ 453,292</b>	<b>\$ 211,353</b>

Release of net assets with donor restrictions due to the passage of time or by incurring expenses satisfying the restricted purpose specified by the donors as noted for fiscal years ended June 30, 2021 and 2020 are as follows:

<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>2021</b>	<b>2020</b>
Restrictions released based on purpose:		
Scholarships and fellowships	\$ 17,405	\$ 4,500
Professorships	809	1,254
Student loans	80	96
General operations and other	2,556	2,329
<b>Total</b>	<b>\$ 20,850</b>	<b>\$ 8,179</b>

## **17. Functional Expenses**

Howard presents its statements of activities by function. Howard allocates its expenses on a functional basis among its various programs and institutional support. Expenses that can be identified with a specific program are charged directly. Costs related to the operation and maintenance of physical plant including utilities, depreciation of fixed assets and interest expense, are allocated among programs and institutional support based upon square footage. Allocation rates are evaluated and updated annually to provide the most accurate allocation of operation and maintenance costs.

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**Notes to the Consolidated Financial Statements**  
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<b>Consolidated Statements of Functional Expenses</b> <b>For year ended June 30, 2021</b> <i>(in thousands)</i>	<b>Academic and Research</b>	<b>Healthcare Services</b>	<b>Administrative Support</b>	<b>Total</b>
Operating expenses:				
Compensation	\$ 226,454	\$ 205,318	\$ 47,265	\$ 479,037
Medical and office supplies	9,016	38,986	1,170	49,172
Repairs and maintenance	1,179	4,966	2,475	8,620
Food service costs	94	-	2,856	2,950
Grant subcontracts	19,704	1	178	19,883
Insurance and risk management	9,196	13,311	7,753	30,260
Professional and administrative services	12,375	58,936	34,192	105,503
Operations and maintenance costs	27,473	3,019	11,632	42,124
Other costs	30,157	2,378	36,872	69,407
<b>Total operating expenses before interest, depreciation, and amortization</b>	<b>335,648</b>	<b>326,915</b>	<b>144,393</b>	<b>806,956</b>
Interest expense	4,416	3,674	11,146	19,236
Depreciation	9,284	11,326	10,600	31,210
<b>Interest, depreciation, and amortization</b>	<b>13,700</b>	<b>15,000</b>	<b>21,746</b>	<b>50,446</b>
<b>Total operating expenses</b>	<b>\$ 349,348</b>	<b>\$ 341,915</b>	<b>\$ 166,139</b>	<b>\$ 857,402</b>

<b>Consolidated Statements of Functional Expenses</b> <b>For year ended June 30, 2020</b> <i>(in thousands)</i>	<b>Academic and Research</b>	<b>Healthcare Services</b>	<b>Administrative Support</b>	<b>Total</b>
Operating expenses:				
Compensation	\$ 214,411	\$ 171,567	\$ 72,793	\$ 458,771
Medical and office supplies	6,461	30,477	4,010	40,948
Repairs and maintenance	1,282	982	17,141	19,405
Food service costs	709	3,570	15,490	19,769
Grant subcontracts	14,824	2	43	14,869
Insurance and risk management	13,397	727	6,504	20,628
Professional and administrative services	11,742	37,099	40,569	89,410
Operations and maintenance costs	31,969	3,513	13,535	49,017
Other costs	18,952	7,542	28,174	54,668
<b>Total operating expenses before interest, depreciation, and amortization</b>	<b>313,747</b>	<b>255,479</b>	<b>198,259</b>	<b>767,485</b>
Interest expense	9,707	4,762	10,793	25,263
Depreciation	18,639	9,154	20,128	47,921
<b>Interest, depreciation, and amortization</b>	<b>28,346</b>	<b>13,916</b>	<b>30,921</b>	<b>73,183</b>
<b>Total operating expenses</b>	<b>\$ 342,093</b>	<b>\$ 269,395</b>	<b>\$ 229,180</b>	<b>\$ 840,668</b>

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**18. Estimated Third-Party Settlements**

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

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

Medicare 2018-2019  
Medicare 2019-2020  
Medicare 2020-2021

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase in net patient service revenues of approximately \$18,189 and \$1,753 for fiscal year ended June 30, 2021 and 2020.

<b>THIRD-PARTY SETTLEMENT REVENUE</b>	<b>2021</b>	<b>2020</b>
Medicare pass-through	\$ 9,951	\$ 10,075
Disproportionate Share Hospital	80,365	67,930
Graduate and Indirect Medical Education	10,954	11,075
Other	(4,065)	1,868
<b>Total third-party settlement revenue</b>	<b>\$ 97,205</b>	<b>\$ 90,948</b>

**19. Charity Care**

The Hospital provides services to patients who meet the criteria of its charity care policy without charge, or at amounts less than established rates. The criteria for charity services are comprised of family income, net worth and eligibility at time of application. In addition the Hospital provides services to patients under the District of Columbia charity care program, DC Alliance. The total costs foregone for services furnished under the Hospital's charity care policy and the DC Alliance program were \$3,117 and \$4,243 for fiscal years ended June 30, 2021 and 2020, respectively.

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**20. Insurance and Risk Management**

Howard, along with 17 other institutions of higher education, is a subscriber in Pinnacle Consortium of Higher Education, a Vermont Reciprocal Risk Retention Group. Pinnacle provides commercial general and certain specific liability coverage. Howard's annual payments to Pinnacle for insurance coverage are based on actuarial studies and are charged to expense. Through December 31, 2015, Pinnacle reinsured 95% of its risk to Genesis, Ltd. (Genesis), an affiliated reinsurer. Genesis, a Class 2 reinsurer under the Insurance Act of 1978 of Bermuda, was jointly formed by Howard and 16 other higher education institutions. Genesis reinsured general liability and automobile liability risks of its shareholders. On January 1, 2016, Genesis merged into Pinnacle. At June 30, 2019, Howard had an approximate 6% interest in Pinnacle. Howard's interest in Pinnacle is included in restricted investments. Liability insurance coverage in excess of the primary coverage has been purchased by Howard, with limits of \$125,000 from commercial insurance companies.

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

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

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

<b>INSURANCE AND RISK MANAGEMENT</b>	<b>2021</b>	<b>2020</b>
Malpractice claims expense	\$ 10,392	\$ (2,209)
Malpractice excess insurance	1,525	1,897
Student health	8,970	7,397
General and other	9,373	13,544
<b>Totals</b>	<b>\$ 30,260</b>	<b>\$ 20,629</b>



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**21. Concentration of Risks**

Financial instruments that potentially subject Howard to significant concentrations of credit risk consist principally of deposits of cash, cash equivalents, and investments in financial institutions in excess of the applicable government insurance limits. The limit was \$250 per cash account as of June 30, 2021 and 2020.

Aggregate cash and cash equivalent balances maintained at financial institutions exceed the amount guaranteed by federal agencies, but Howard has not experienced any loss due to this risk. Concentrations of credit risk with respect to receivables pertain mainly to self-pay patients of Howard's clinical services, and to students. Financial instruments that potentially subject Howard to market risk consist primarily of investments. Howard attempts to mitigate this risk through its investment strategy.

**22. Commitments and Contingencies**

(a) ***Federal Awards***

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

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

During the ordinary course of business, Howard is a party to various litigation and other claims in the ordinary course of business including claims of malpractice by the Hospital and faculty physicians. It is also subject to potential future claims based on findings or accusations arising from past practices under governmental programs and regulations and tort law. In fiscal years ended June 30, 2021 and 2020 Howard reserved \$2,000 and \$1,000 respectively for legal contingencies. In the opinion of management and Howard's general counsel, an appropriate monetary provision has been made to account for probable losses upon ultimate resolution of these matters.

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

Howard has several collective bargaining agreements currently in effect with unions representing approximately 1,722 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

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**23. COVID-19 and COVID-19 Relief Funds**

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The COVID-19 pandemic substantially impacted the global economy including significant volatility in financial markets.

**(a) *Howard University***

As a result of the COVID-19 outbreak, the University closed its campus to students in March 2020 and prorated adjustments were issued to students for a portion of room and board charges that were not utilized by students. The cash payments were issued for credit balances resulting from the prorated adjustments. Students with institutional scholarships covering room and/or board charges were not entitled to a cash payment, and accordingly adjustments were made to reduce the institutional scholarship award. The University resumed virtual classes for the Fall semester in August 2020, and allowed certain students involved in specific programs to return to campus in September 2020.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act, among other things, includes funds for the Higher Education Emergency Relief Fund (HEERF).

During the year ended June 30, 2020, the University received federal funding from the CARES Act for the HEERF grant in the total amount of approximately \$8,700 related to relief efforts in light of the COVID-19 outbreak. No less than 50% of the HEERF grant is to be utilized for direct emergency aid to eligible students. The University has expended \$2,700 of the funds received for the student portion of the HEERF grant, included in grant revenue and recognized as academic support expense on the consolidated statements of activities. The University recognized the remaining 50% of the grant, \$4,300, that was allocated to the institution as allowed by Sections 18004(a)(1) and 18004(c) of the CARES Act as a reimbursement for COVID-19 response related expenses and forgone revenue resulting from student refunds for services that could not be provided as a result of campus closure on March 16, 2020.

During the year ended June 30, 2020, the University also received federal funding from the CARES Act for HBCU Education Stabilization Fund (CARES HBCU grant) in the amount of approximately \$13,000 related to relief efforts in light of the COVID-19 outbreak. Sections 18004(a)(1) and 18004(c) of the CARES Act allows for the funds to be used to provide economic relief to HBCU's due to the impact of COVID-19. During the year ended June 30, 2020, the University recognized contribution revenue of approximately \$13,000 for the institutional portion of the CARES HBCU grant.

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### **Notes to the Consolidated Financial Statements**

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During the year ended June 30, 2021, the University received federal funding from the American Rescue Plan Act (ARP Act) for Higher Education Emergency Relief Fund (HEERF Grant) in the total amount of approximately \$35,200 related to relief efforts in light of COVID-19. The University has expended \$18,100 of the funds received for the HEERF grant, including grant revenue and recognized as academic expense on the consolidated statements of activities.

During the year ended June 30, 2021, the University also received federal funding from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) Act for HBCU Education Stabilization Fund in the amount of approximately \$20,000 related to relief efforts in light of COVID-19. As of June 30, 2021, the University recognized contribution revenue of approximately \$20,000 for the institutional portion of this grant.

#### **(b) *Howard University Hospital (HUH)***

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The COVID-19 pandemic substantially impacted the global economy including volatility in financial markets. As a result of the COVID-19 pandemic, patient volumes and associated patient net revenues at the Hospital were significantly reduced in the months of March through June 2020. The Hospital began experiencing gradual and continued improvement in patient volumes in the summer of 2020 as stay-at-home restrictions were eased and hospitals were permitted to resume elective surgeries and procedures. Although patient volumes have continued to improve, especially for outpatient and emergency patient services, overall patient volumes at the Hospital continued to be much less than volumes seen at the Hospital prior to March 2020. The spread of new variants of COVID-19 continue to have a further impact on patient volumes as of the date of this report.

The District asked all city hospitals, including Howard University Hospital, to increase bed capacity by 125%. The Hospital reopened approximately 170 inpatient beds and added an Emergency Department triage tent to one of its main parking lots. As of June 30, 2020, the District had provided the Hospital approximately \$14,239 of initial funding to cover the cost of this increased capacity and related expenses. \$11,299 of this funding was expended and recognized as either income (as related to expense) or non-operating change in net asset (as related to capitalized expenditures) for the fiscal year ended June 30, 2020. The remaining \$2,940 of this funding was expended and recognized as either income (as related to expense) or non-operating change in net asset (as related to capitalized expenditures) for the fiscal year ended June 30, 2021.

On March 27, 2020, President Trump signed into law the Coronavirus Aid Relief, and Economic Security (CARES) Act. The CARES Act, among other things,

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authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). These funds are not required to be repaid provided the recipients attest to, and comply with, certain terms and conditions, including among other things, that the funds are being used for lost operating revenues and COVID-19 related expenses. The U.S. Department of Health and Human Services (HHS) initially distributed \$20 billion in CARES Act funding based on an allocation proportional to the providers' share of 2018 net patient revenue. Distributions of the additional \$50 billion were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, safety net hospitals, skilled nursing facilities and to reimburse providers for COVID-19-related treatment of uninsured patients. During the year ended June 30, 2020, the Hospital received payments of \$30,210 from the general stimulus and safety net disbursements of the PRF. The Hospital recognized the entire amount of the general disbursement grants and a partial amount of the safety net disbursement totaling \$10,358 during the year ended June 30, 2020, as permitted by the terms and conditions, as other operating revenue. The Hospital recognized an additional amount of \$34,103 of the safety net disbursement of the PRF during the year ended June 30, 2021, as permitted by the terms and conditions, as other operating revenue. The Hospital also received \$869 of Phase Four disbursement of the PRF after June 30, 2021. The remainder of the funding not recognized as of June 30, 2021 is recorded in deferred revenue. The funds received from HHS are subject to specific terms, conditions, and audit by HHS. Noncompliance with any of the terms or conditions is grounds for HHS to recoup some or all of the payments received by the Hospital. Management believes it has complied with the terms and conditions.

The CARES Act also made other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advanced Payment Program, which makes available accelerated payments of Medicare funds to increase cash flow to providers. The Hospital received \$26,230 of advance payments, which were recorded as deferred revenue as of June 30, 2020. Recoupment of the funds began in April 2021 through a reduction of 10% of payment made on Medicare claims. The Hospital maintained an Accelerated and Advanced Payment Program balance in the amount of \$23,491 in deferred revenue as of June 30, 2021.

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**24. Related Party Transactions**

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

The Howard University Board of Trustees founded Howard University Charter Middle School of Mathematics and Science, which operates from premises owned by Howard. The Middle School is a separate legal entity. For fiscal years ended June 30, 2021 and 2020, Howard has contributed to the Middle School as follows:

<b>RELATED PARTY TRANSACTIONS</b>	<b>2021</b>	<b>2020</b>
Cash operating support	\$ 500	\$ 250
Facility leased (market value)	1,451	1,451
<b>Total</b>	<b>\$ 1,951</b>	<b>\$ 1,701</b>

(b) ***The Howard Dialysis Center***

Howard and American Renal Associates, LLC (ARA) have a joint venture agreement for the operation of the Howard University Dialysis Center LLC (LLC). The entity was formed on March 1, 2012. Howard and the LLC are parties to a non-compete agreement, and Howard jointly guarantees the LLC's debt agreements

On March 1, 2012, the LLC commenced a lease with Howard for the current space, employees, and Medical Director associated with its Hospital outpatient dialysis services which will result in monthly rental income for Howard in addition to its proportionate share of earnings (losses) of the LLC.

Howard accounts for its interest in the LLC using the equity method which requires Howard to record a proportional share of the LLC's net income or loss as increases and decreases to the initial investment are received.

As of fiscal years ending June 30, 2021 and 2020, the consolidated statements of financial position for the LLC are as follows:

<b>HOWARD DIALYSIS CENTER, LLC STATEMENTS OF FINANCIAL POSITION</b>	<b>2021</b>	<b>2020</b>
<b>Total Assets</b>	\$ 12,020	\$ 10,875
<b>Total Liabilities</b>	\$ 3,417	\$ 2,289
<b>Equity</b>		
Partner	5,830	5,651
Retained earning	2,772	2,934
<b>Total Equity</b>	<b>\$ 8,603</b>	<b>\$ 8,585</b>
<b>ARA interest</b>	\$ 4,387	\$ 4,378
<b>Howard interest</b>	\$ 4,215	\$ 4,207

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(c) ***Provident Group – Howard Properties, LLC***

In July 2019, the University entered a 40-year ground lease with Provident Group – Howard Properties, LLC and Provident Resources Group, Inc. ("Owner") in which the Owner will design, construct and furnish the College Hall North and South dormitory facilities ("dorms") for the benefit of the University. The Owner issued \$113,900 in revenue bonds through the District of Columbia to finance the construction of the dorms. The University and Owner entered into a management agreement such that the University will be responsible for managing, operating and maintaining the dorms in conjunction with general business. In general, revenues and expenses associated with the dorm are the responsibility of the Owner. The bonds will be repaid solely from revenues from the dorms. A management fee and ground lease payment will be paid to the University only upon the settlement of various expenses and if minimum cash requirements are made. Reimbursement of utilities expense will be subordinate to debt service. Ownership of the dorms will revert to Howard upon termination of the Ground Lease and full repayment of the debt.

(d) ***Adventist Healthcare, Inc.***

Howard University signed a three-year Management Service Agreement (MSA) with Adventist Healthcare, Inc. effective January 31, 2020. The term of the agreement shall extend for three years unless terminated sooner as provided under the MSA, with an automatic renewal and extension after the initial term for additional one (1) year terms. Adventist Healthcare, Inc. commenced full performance effective February 17, 2020, under the MSA for day-to-day operations of the Hospital under the oversight of a joint Howard and Adventist Healthcare, Inc. Management Committee, while Howard continues to be the licensed operator of the Hospital.

(e) ***Corvias Campus Living – HU, LLC***

In January, 2017, the University, Howard Dormitory Holdings 1, LLC, a wholly-owned subsidiary of Howard University and Corvias Campus Living – HU, LLC entered into a 40 year term service concession agreement. Under this agreement, Corvias Campus Living – HU, LLC handled the financing, design, engineering, renovation, management, operation, maintenance, and repair of the East Tower, the West Tower, Drew Hall and Cook Hall. The University and Howard SPE pledged all revenues from these properties to Corvias Campus Living. As part of this agreement, Corvias Campus Living – HU, LLC, entered into a construction contract with Gilbane Building Company for the renovation of the East Tower and the West Tower, which were completed in fall of 2018.

(1) ***Residence Life Service Provider*** – In January 2017, as part of the aforementioned service concession agreement, Corvias Campus Living – HU, LLC entered into a 40 year term Residence Life Management Agreement with Corvias Campus Management, Inc., an independent contractor, to manage

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on its behalf, any and all of the residence life duties and responsibilities relating to the East Tower, the West Tower, Drew Hall and Cook Hall. In compensation for the performance of its duties under this Agreement, the Residence Life Service Provider will be paid the Residence Life Management Fee as set forth in Section 6.3 of the Service Concession Agreement escalating by three percent (3%) per annum on the first day of each Fiscal Year of the Term. In August 2018, this relationship was expanded such that Corvias will manage any and all residence life duties and responsibilities for the University's central office of residence life (inclusive of the Annex). Management of the central office of residence life was transferred back to Howard in October of 2019.

(f) ***Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc.***

In May 2019, the University, and Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc. entered into a 40 year term agreement. Under this agreement, Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc. will handle the financing, design, engineering, renovation, management, operation, maintenance, and repair of the Tubman Quad. The University pledged all revenues from these properties to Provident Group – Tubman Quad Properties LLC and Provident Resources Group Inc.

(g) ***Howard Center Project***

In November 2018, Howard entered into a 50 year lease with Provident Group-Howard Center, Inc. ("Lessee") for seven (7) tracts of the Howard Center Project. (see Note 11-Leases for additional information). In November 2018, Howard and Provident Group-Howard Center, Inc. entered into a management agreement such that the University will manage the day-to-day operation, management, maintenance and repair of the Howard Center Project. Under a sub-management agreement, Howard assigned and delegated its management rights and responsibilities for the Howard Center Project to Corvias Management, LLC.

(h) ***It's My Corner, LLC***

The University entered into a Participation Agreement with It's My Corner, LLC (IMC) for the transfer and development of the certain property located on Florida Avenue. HU was the owner of real property located on Florida Avenue, NW, Washington, DC. IMC also owned real property located on Florida Avenue, NW, Washington, DC. The properties were combined and will be developed by IMC as a mixed use project with a new building.

The University has received a 24% equity share in the combined properties that is subject to adjustments if the timing of the commencement of construction for the project is has not occurred within 36 calendar months after the date that the deed was recorded and if the construction is not substantially completed within 36

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calendar months after commencement. With all potential adjustments, the University's equity share shall not exceed 45%.

IMC has also granted the University a right of first offer to purchase the combined properties prior to any efforts by IMC to sell or market the project.

**25. Subsequent Events**

The University evaluated subsequent events through February 9, 2022, the date the consolidated financial statements were issued. Except as disclosed below, the University concluded that no material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.

- (a) In December 2021, the University received \$20,000 restricted gift from Walmart. This gift will support the Graduation & Retention Access to Continued Excellence (GRACE) program.
- (b) On September 3, 2021, the Howard University information technology team detected unusual activity on the University's network. Based on the subsequent investigation and the information we have to date, the University experienced a ransomware cyberattack, causing some functions critical to the University to shut down. The information technology team and its partners subsequently worked to increase end user access to the University's network and its applications while generating new mechanisms to access data and use tools in a secure manner. The information technology team also distributed new and reimaged laptops and hardware devices to faculty and staff. While all cloud-based academic applications were not impacted by the ransomware attack, the University strengthened cloud-based security to further mitigate the risk of a breach. Through those efforts, the University campus was reopened on September 13, 2021, and efforts to further stabilize the network are ongoing. As of the date through which the University evaluated subsequent events, the University is not aware of any of the University's data being extracted as a result of the ransomware cyberattack.