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HOWARD

UNIVERSITY

The Howard University
Consolidated Financial Statements
For the Fiscal Year Ended June 30, 2024

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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, 2024, as described in Note 14 of the accompanying consolidated financial statements.

Ben Vinson, III, PhD
President

John D. Gordon, Jr. MS, CPA, CGMA
Controller and Chief Accounting Officer

December 5, 2024



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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" or "Howard"), which comprise the consolidated statements of financial position as of June 30, 2024, and the related consolidated statement of activities and cash flows for the year 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, 2024, and the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Consolidated 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.

Report on Summarized Comparative Information

We have previously audited the University's 2023 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 11, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent in all material respects with the audited consolidated financial statements from which it has been derived.



Responsibilities of Management for the Consolidated 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 available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2024 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, P.C.

December 5, 2024

The Howard University
Consolidated Statements of Financial Position
June 30, 2024 and 2023
(In thousands)

	2024	2023
Current Assets:		
Cash and cash equivalents	\$ 95,789	\$ 205,693
Operating investments	9,632	7,719
Deposits with trustees	14,093	1,310
Receivables, net	141,783	178,349
Healthcare contract assets, net	2,730	2,401
Inventories, prepaids and other assets	50,131	47,738
Restricted investments	57,611	50,046
Total Current Assets	371,769	493,256
Long Term Assets:		
Deposits with trustees	26,818	25,858
Receivables, net	32,506	37,801
Inventories, prepaids and other assets	10,679	9,211
Unexpended bond proceeds	315,096	340,386
Restricted investments	9,374	8,580
Endowment investments	1,032,497	926,633
Operating lease right of use assets	69,491	39,346
Finance lease right of use assets, net	31,118	23,441
Overfunded defined benefit pension plan	21,390	20,602
Long-lived assets, net	816,298	710,730
Total Long Term Assets	2,365,267	2,142,588
Total Assets	<u>\$ 2,737,036</u>	<u>\$ 2,635,844</u>
Current Liabilities:		
Accounts payable and accrued expenses	\$ 192,053	\$ 157,123
Deferred revenue	123,599	123,613
Other liabilities	32,256	29,381
Accrued post-retirement benefits	4,130	3,932
Reserve for self-insured liabilities	19,426	9,160
Notes payable	605	869
Operating lease obligations	15,542	8,903
Finance lease obligations	5,094	3,817
Bonds payable, net	13,617	12,966
Total Current Liabilities	406,322	349,764
Long Term Liabilities:		
Other liabilities	2,545	1,951
Accrued post-retirement benefits	35,100	35,063
Reserve for self-insured liabilities	41,100	52,035
Operating lease obligations	53,581	25,374
Finance lease obligations	22,532	17,531
Bonds payable, net	797,404	808,762
Refundable advances under Federal Student Loan Program	4,583	4,037
Total Long Term Liabilities	956,845	944,753
Total Liabilities	1,363,167	1,294,517
Net Assets:		
Without donor restrictions	464,799	512,874
With donor restrictions	909,070	828,453
Total Net Assets	1,373,869	1,341,327
Total Liabilities and Net Assets	<u>\$ 2,737,036</u>	<u>\$ 2,635,844</u>

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

The Howard University
Consolidated Statements of Activities
For the years ended June 30, 2024 and 2023
(In thousands)

For the year ended June 30, 2024 (with summarized comparative information for fiscal year ended June 30, 2023)	Without Donor Restrictions	With Donor Restrictions	Total 2024	Summarized 2023
Operating				
Revenues, support and reclassifications:				
Academic services:				
Tuition and fees, net of financial aid	\$ 255,535	\$ —	\$ 255,535	\$ 222,416
Grants and contracts	108,661	—	108,661	92,439
Auxiliary services	51,648	—	51,648	48,970
Clinical services:				
Patient service - Hospital, net	269,687	—	269,687	294,595
Patient service - Faculty Practice Plan, net	23,118	—	23,118	23,087
Patient service - Dental clinic, net	1,595	—	1,595	1,621
Public support:				
Federal appropriation	250,757	28,839	279,596	251,604
Contributions of cash and other financial assets	32,866	32,654	65,520	74,268
Endowment returns made available for operations	15,696	12,884	28,580	21,533
Operating investment income, net	25,436	—	25,436	16,580
Real property	3,102	—	3,102	5,298
Other income	25,735	863	26,598	17,880
Total revenues and support	1,063,836	75,240	1,139,076	1,070,291
Net assets released from restrictions	37,882	(37,882)	—	—
Total revenues, support and reclassifications	1,101,718	37,358	1,139,076	1,070,291
Expenses:				
Academic and student support	360,346	—	360,346	359,143
Research	95,067	—	95,067	81,871
Healthcare services	318,571	—	318,571	305,856
Auxiliary enterprises	56,700	—	56,700	46,084
Administrative and support services	343,363	—	343,363	253,043
Total operating expenses	1,174,047	—	1,174,047	1,045,997
(Deficiency) excess of operating revenue over expenses	(72,329)	37,358	(34,971)	24,294
Non-operating				
Investment income in excess of amount designated for operations	48,615	58,219	106,834	59,244
Endowment returns made available for operations	(14,528)	(14,052)	(28,580)	(21,533)
Net unrealized gain in beneficial interest trust	—	466	466	393
Net periodic benefit cost other than service cost	800	—	800	3,002
Change in funded status of defined benefit pension plan	(1,648)	—	(1,648)	(4,042)
Change in obligation for post-retirement benefit plan	(1,373)	—	(1,373)	786
Change in funded status of supplemental retirement plan	(6)	—	(6)	13
Other non-operating items, net	(7,606)	(1,374)	(8,980)	(10,743)
Increase in non-operating activities	24,254	43,259	67,513	27,120
Change in net assets	(48,075)	80,617	32,542	51,414
Net assets, beginning of year	512,874	828,453	1,341,327	1,289,913
Net assets, end of year	\$ 464,799	\$ 909,070	\$ 1,373,869	\$ 1,341,327

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

The Howard University
Consolidated Statements of Cash Flows
For the years ended June 30, 2024 and 2023
(In thousands)

For the years ended	2024	2023
Cash flows from operating activities		
Change in net assets	\$ 32,542	\$ 51,414
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	42,528	42,241
Amortization of premiums and discount on debt, including issuance cost	988	962
Net realized (gain) loss on sale of investments	(38,820)	7,673
Net unrealized gain on investments	(48,532)	(16,824)
Impairment of net investment in lease	21,988	—
Stock distributions	(13,015)	(3,932)
Contributions restricted in perpetuity	(29,265)	(24,765)
Loss on sale/disposal of long-lived assets	130	4,787
Pension/post-retirement benefits	(553)	(2,251)
Reserve for self-insured liabilities	(669)	(2,301)
Changes in operating assets and liabilities:		
(Increase) Decrease in assets:		
Deposits with trustees	(13,743)	2,115
Receivables (excluding notes), net of reserve for doubtful accounts	18,189	24,758
Healthcare contract assets	(329)	(248)
Inventory, prepaids and other assets	(3,947)	(5,209)
Operating lease right of use assets	21,833	29
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	11,355	(22,007)
Deferred revenue	(14)	39,302
Other liabilities	3,469	(603)
Operating lease obligation	(17,132)	(2,755)
Refundable advances under Federal Student Loan Program	546	9
Net cash provided by operating activities	<u>(12,451)</u>	<u>92,395</u>
Cash flows from investing activities		
Proceeds from investment sales	1,474,004	895,238
Purchases of investments	(1,489,773)	(948,791)
Return on unexpended bond proceeds	25,290	7,329
Purchases and renovations of long-lived assets	(120,363)	(63,346)
Lease restructuring disbursement	(22,510)	—
Net cash used in investing activities	<u>(133,352)</u>	<u>(109,570)</u>
Cash flows from financing activities		
Contributions restricted in perpetuity	29,265	24,765
Payments on notes payable	(264)	(252)
Proceeds from bonds payable	1,271	2,491
Payments on bonds payable	(12,966)	(12,593)
Bond issuance costs	—	(2,491)
Principal payments on finance lease obligations	(5,601)	(4,514)
Change in finance lease right of use assets and finance lease obligation	—	(727)
Change in student loans collected	1,684	777
Sales-type lease proceeds	22,510	—
Net cash provided by financing activities	<u>35,899</u>	<u>7,456</u>
Decrease in cash and cash equivalents	(109,904)	(9,719)
Beginning cash and cash equivalents	205,693	215,412
Ending cash and cash equivalents	<u>\$ 95,789</u>	<u>\$ 205,693</u>

Supplemental cash flow information continued on the next page

The Howard University
Consolidated Statements of Cash Flows
For the years ended June 30, 2024 and 2023
(In thousands)

For the years ended	<u>2024</u>	<u>2023</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 37,748	\$ 36,124
Supplemental non-cash investing and financing activities:		
Acquisition of equipment under financing leases	11,878	3,885
Acquisition of equipment and office space under operating leases	51,978	11,912
Accrued capital expenditures	23,575	11,310
Stock distributions	13,015	3,932

Refer to Footnote 13 for supplemental disclosure of cash flow information for leases.

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

The Howard University
Notes to the Consolidated Financial Statements
June 30, 2024 and 2023
(In thousands)

1. University Organization

The Howard University (hereafter referred to as Howard or the University) is a private, nonprofit institution of higher education 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.

Under Public Law 87-262 (75 stat. 542), enacted on September 21, 1961, Freedmen's Hospital was transferred to Howard University to support its mission in medical training and community healthcare. On January 1, 2024, Howard University Hospital Inc. (HUH), became a fully incorporated entity and still wholly-owned subsidiary of the University, and operating as the wholly-owned Howard University Hospital.

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 Research Institute for Tactical Autonomy (RITA) is a University Affiliated Research Center (UARC) competitively awarded by the U.S. Department of Defense to Howard University in 2023.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). These consolidated statements include summarized comparative information for the prior year in total, without classification by net asset type. This summarized information may lack the detail required for a full presentation in conformity with U.S. GAAP and should therefore be read alongside the University's financial statements for the year ended June 30, 2023, from which it is derived.

The consolidated statements of activities include all transactions that affect net assets. Operating results reflect transactions related to the University's core activities, while non-operating items include investment returns that exceed the amount allocated for current operations under the spending policy. These non-operating items also encompass unrealized gains and losses on investment accounts, unrealized gains and losses on beneficial interest in perpetual trusts, endowment transfers, and changes in pension liabilities and other post-retirement benefit plans.

(b) Net Asset Classifications

The University follows U.S. GAAP reporting requirements, which require classifying resources into two categories of net assets based on the presence or absence of donor-imposed restrictions.

Without Donor Restrictions – Net assets without donor restrictions are available for general operating use at the discretion of the Board of Trustees (the Board) and/or management. Occasionally, the Board may designate a portion of these net assets for specific purposes, making them unavailable for discretionary use by management.

With Donor Restrictions – Net assets with donor restrictions are subject to legal or donor-imposed stipulations that may be met over time, through specific actions by the University pursuant to those stipulations, or both. These net assets include endowment funds intended to provide a perpetual income source for the University, where donor-imposed stipulations or restrictions under the District of Columbia Uniform Prudent Management of Institutional Funds Act of 2008 (DC UPMIFA), as enacted in the District of Columbia, limit their use. The original gift amount, any additional contributions, and any related investment returns are classified as net assets with donor restrictions until authorized for use by the governing body or law.

The Howard University
Notes to the Consolidated Financial Statements
June 30, 2024 and 2023
(In thousands)

Contributions are generally recorded as revenue in the appropriate net asset category. However, contributions with donor-imposed restrictions that are met within the same fiscal year are reported as revenue without donor restrictions. When donor restrictions are satisfied (e.g., the specific purpose is achieved or the required time period has passed), funds are reclassified from net assets with donor restrictions to net assets without donor restrictions. Donor restrictions on gifts for long-lived assets are considered fulfilled when the asset is acquired or placed in service.

(c) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the consolidated financial statements. 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. For the years ended June 30, 2024 and 2023, there were no uncertain tax positions considered to be material.

The Tax Cuts and Jobs Act (the Act), enacted on December 22, 2017, introduced various changes affecting the University, including excise taxes on executive compensation and net investment income, as well as new rules for calculating unrelated business taxable income. Based on guidance from the Act, the University estimated related tax expense of \$512 and \$163 for the years ended June 30, 2024 and 2023, respectively.

(e) Cash and Cash Equivalents

Cash and cash equivalents include financial instruments with original maturities of three months or less, such as U.S. Treasury securities and other short-term, highly liquid investments, all carried at fair value. Cash and cash equivalents held in the endowment fund and by investment managers are included in investments.

The University's aggregate cash and cash equivalents held at financial institutions exceed federal insurance limits by approximately \$93,789 and \$204,193 as of June 30, 2024, and 2023, respectively. While these funds are exposed to risk, the University has not experienced any losses due to this exposure.

(f) Investments

Investments are categorized in the consolidated statements of financial position as operating, donor restricted, endowment investments, and deposits with trustees. All investments are carried at fair value or net asset value and are defined as follows:

Operating Investments – represent investments not subject to donor or lender-imposed restrictions. These include short-term assets that can be liquidated at the discretion of the Board of Trustees to meet operational needs.

Restricted Investments – represent non-endowed investments with principal and/or income restricted by external sources, including liquidation constraints. The use of these funds is not at the discretion of the Board or management.

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 or UPMIFA.

Deposits with Trustees – represent a debt service reserve fund consisting primarily of fixed income investments and other short-term securities (see Note 6).

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 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.

The Howard University
Notes to the Consolidated Financial Statements
June 30, 2024 and 2023
(In thousands)

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.

(g) Revenue Recognition

The University recognizes revenue from contracts with customers based on the consideration specified in the contract. Revenue is recognized when the University satisfies its performance obligations by transferring goods or services to the customer. The University follows a five-step revenue recognition model: (i) identify the contract; (ii) identify performance obligations; (iii) determine transaction price; (iv) allocate transaction price; and (v) recognize revenue.

The University (i) evaluates other revenue streams based on whether transactions should be accounted for as contributions (nonreciprocal transactions) or as revenue from contracts with customers (reciprocal) transactions and (ii) determined whether a contribution is conditional.

The University earns revenue primarily through instruction in the form of tuition and fees, patient care, and auxiliary services on its Washington, DC campuses. 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 patient and other non-student contracts based on the date of the event or when the service is provided.

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.

Tuition and fees, net of financial aid, are recognized as revenue in the year the related academic services are provided. Student tuition and fees received in advance of service are recorded as deferred revenue. The University offers institutional financial aid to eligible students based on financial need or academic qualifications, typically as part of an "aid package". Financial aid may include loans, work-study compensation, and/or grant and scholarship. Loans are primarily offered through U.S. government programs (direct and guaranteed loans) where the University's responsibility is limited to certain administrative duties.

Institutional grants and scholarships are funded by contributions from private donors, income from endowment funds restricted for student aid, and University funds. Under U.S. GAAP, this institutional aid is considered a reduction of the transaction price as it represents consideration payable to the student. Accordingly, the University presents tuition and fees, net of financial aid. Financial aid for fiscal years ended June 30, 2024 and 2023 was \$189,209 and \$177,937, respectively.

TUITION AND FEES, NET	2024	2023
Tuition and fees before applying financial aid	\$ 444,744	\$ 400,353
Deductions for financial aid:		
Merit-based scholarship	120,758	104,218
Need-based financial aid	44,697	52,131
Talent-based scholarships and awards	12,002	10,691
Other financial aid	11,752	10,897
Total reduction for financial aid	<u>\$ 189,209</u>	<u>\$ 177,937</u>
Total tuition and fees, net of financial aid	<u><u>\$ 255,535</u></u>	<u><u>\$ 222,416</u></u>

The Howard University
Notes to the Consolidated Financial Statements
June 30, 2024 and 2023
(In thousands)

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). Grants and contracts 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. The University evaluates whether these grants and contracts should be accounted for as a conditional or unconditional contribution (nonreciprocal transactions), or as revenue from a contract where the government is the customer. For the years ended June 30, 2024 and 2023, Howard recognized \$107,046 and \$90,725 of revenue that is considered nonreciprocal, respectively, and \$1,615 and \$1,714 of revenue subject to ASC 606, Revenue from Contracts with Customers, respectively. Receivables under research grants and development agreements represent the amounts due from Federal, state, local, private grants, contracts and others. As of June 30, 2024, and 2023, the University did not have any grants that represented more than 10% of grants and contracts revenue, respectively. As of June 30, 2024, and 2023, the University had one grant sponsor that represented 10% and 11% of grants and contracts revenue, respectively.

GRANTS AND CONTRACTS REVENUE	2024	2023
Reimbursement of direct expenses	\$ 95,263	\$ 81,223
Recovery of indirect costs	13,398	11,216
Total grants and contracts revenue	<u>\$ 108,661</u>	<u>\$ 92,439</u>
Indirect costs recovery as a % of direct costs	14%	14%

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

GRANTS AND CONTRACTS REVENUE BY TYPE	2024	2023
Research	\$ 78,078	\$ 63,236
Training	14,508	11,649
Service/other	16,075	17,554
Total grants and contracts revenue by type	<u>\$ 108,661</u>	<u>\$ 92,439</u>

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 television station (WHUT) and preschool center fees.

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.

AUXILIARY SERVICES REVENUE	2024	2023
Student housing	\$ 11,664	\$ 11,122
Meal plans	25,973	24,326
Radio station	7,116	8,628
Bookstore	947	888
Parking fees	2,325	1,897
Other	3,623	2,109
Total auxiliary services revenue	<u>\$ 51,648</u>	<u>\$ 48,970</u>

Net patient service revenue arises from contracts to provide health care services to patients. Revenue is recognized when services are provided, and performance obligations are satisfied. This revenue often involves third-party payors (e.g., Medicare, Medicaid, and insurance companies), with transaction prices dependent on terms set by or negotiated with these payors. Howard estimates net revenue based on expected payments from patients and payors, considering price concessions in managed care and insurance plans as specified in contracts. Revenue from uninsured patients and insured co-payments or deductibles may include discounts. Howard also accounts for estimated implicit price concessions for uninsured accounts, based on historical collections.

The Howard University
Notes to the Consolidated Financial Statements
June 30, 2024 and 2023
(In thousands)

Howard University Hospital and the Faculty Practice Plan have payment arrangements with third-party payors at established rates, including per discharge, reimbursed costs, discounted charges, and per-diem payments. The University accrues retroactive adjustments based on estimates when services are rendered, adjusting them as final settlements are determined. Receivables represent amounts due for services rendered by the University's Faculty Practice and the Hospital.

NET PATIENT SERVICE REVENUE	2024	2023
Gross Revenues	\$ 752,173	\$ 834,755
Third-party settlement revenue	75,093	94,215
Price concessions	(532,866)	(609,667)
Total net patient service revenue	<u>\$ 294,400</u>	<u>\$ 319,303</u>

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

Federal appropriation revenue is recognized when received and expended. Howard receives a Federal appropriation to support its educational mission. Of this appropriation, \$28,839 is restricted: \$25,434 is designated for the construction and renovation of Howard University Hospital, and \$3,405 is restricted for a term endowment required to be held for 20 years. For fiscal years ended June 30, 2024 and 2023, the Federal appropriation accounted for 25% and 24%, respectively, of Howard's total revenue support. There is a \$3,405 receivable at both June 30, 2024 and 2023, that represents the portion to be collected on the Federal term endowment as defined in Note 16.

Contribution of cash and other financial assets, including unconditional promises to give, are recognized at fair value within the appropriate category of net assets when received. Contributions with restrictions that are met within the same fiscal year are included in net assets without donor restrictions. Unconditional promises to give are initially recognized at fair value, considering expected future cash receipts and discounted at a risk-adjusted rate. Conditional promises to give are recognized only when the conditions are substantially met.

Contribution revenue from government and private grant and contracts, generally considered nonreciprocal transactions, is recognized when qualifying expenditures are incurred, and conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenue on the consolidated statements of financial positions. The University recognized approximately \$5,364 and \$5,991 in federal contributions from the Department of Education as part of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) appropriations for educational institutions for the fiscal years ended June 30, 2024 and 2023, respectively. The funds were used primarily for student grants and to offset losses caused by COVID-19 (see Note 22).

Contributions income for fiscal years ended June 30, 2024 and 2023 is shown below:

CONTRIBUTIONS INCOME	2024	2023
Without donor restrictions	\$ 32,866	\$ 25,219
With donor restrictions	32,654	49,049
Total contributions income	<u>\$ 65,520</u>	<u>\$ 74,268</u>

As of June 30, 2024, and 2023 the University did not have any single donors that represented greater than 10% of contribution income, respectively.

Contributed works of art, historical treasures, literary works and artifacts, which are preserved for educational, research and public exhibition purposes are capitalized. Such collections are nonfinancial gifts valued and recorded at estimated fair value on the date of donation. If donor-imposed stipulations specify a required usage period, these contributions are recorded as net assets with donor restrictions; otherwise, they are recorded as net assets without donor restrictions.

Real property revenue is comprised of income and gains from real estate transactions including lease income and is recognized as revenue in the period it is earned and collectible. Real property receivable includes the net present value of the minimum lease payments from sales-type leases. Revenue recognition for real property lease transactions is disclosed in further detail in Note 13.

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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. For the year ended June 30, 2024, other income was primarily composed of revenue recognized related to settlements, athletics, and treasuries in the amounts of \$3,000, \$2,855, and \$2,655, respectively. For the year ended June 30, 2023, other income was primarily composed of revenue recognized related to distributions of the DC Medicaid Indigent Care Grant related to the Hospital's operations in the amount \$8,069.

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.

As of June 30, 2024, Howard has assigned all outstanding Perkins loans to the Department of Education, and is in the process of formally liquidating its Perkins portfolio.

(h) 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 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.

(i) Long-Lived Assets

Long-lived assets include property, 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, capital improvements, equipment, software, library books, and art and historical treasures for the University. Long-lived assets are recorded 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. Land, which is included in land and land improvements, and property held for expansion, is not depreciated.

The University capitalizes and recognizes purchased and donated works of art and historical treasures on the consolidated statement of financial position. 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 loss on the consolidated 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 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
Property held for expansion	40 years
Furniture and equipment	3-20 years
Library books	10 years
Software	3-10 years

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

(j) Unexpended Bond Proceeds

Unexpended bond proceeds consist of investments in government debt security funds, which are valued at amortized cost and not quoted daily. As of June 30, 2024 and 2023, unexpended bond proceeds totaled \$315,096 and \$340,386, respectively, including earnings of \$29,040 and \$11,946 from invested funds during the respective periods.

(k) 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 (see Note 11).

(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 an asset. Howard follows the Internal Revenue Service (IRS) guidelines in the administration of the Plan (see Note 15).

(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 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) Leases

The University and the Hospital have entered into a variety of operating and finance leases for office space and equipment. 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. Operating lease expense, excluding short-term lease costs, is recognized on a straight-line basis. More information is included in Note 13.

(p) 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.

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(q) New Accounting Pronouncements

Periodically, the Financial Accounting Standards Board (FASB) issues Accounting Standards Updates (ASU) which impact Howard's financial reporting and related disclosures. The following paragraphs summarize relevant updates pertaining to the periods presented.

In January 2020, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. For non-public entities, ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The ASU requires credit losses on most financial assets carried at amortized cost and certain other instruments to be measured using an expected credit loss model. Howard adopted the standard and subsequent clarifications during the year ended June 30, 2024, which did not have a significant impact on our results of operations, financial position, or cash flows.

(r) Reclassifications

Certain 2023 amounts have been reclassified to conform to the 2024 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, 2024 and 2023, financial assets and liquidity resources that are available within one year for general expenditures consists of the following:

FINANCIAL ASSETS AND LIQUIDITY RESOURCES

Financial Assets:

	2024	2023
Cash and cash equivalents	\$ 95,789	\$ 205,693
Operating investments	9,632	7,719
Receivables, net (excluding donor-restricted contributions)	111,325	108,048
Healthcare contract assets, net	2,730	2,401
Endowment funds appropriated for current use	31,018	22,864
Total financial assets available within one year	<u>\$ 250,494</u>	<u>\$ 346,725</u>

Liquidity Resources:

Unused bank line of credit available	75,000	75,000
Total financial assets and liquidity resources available within one year	<u><u>\$ 325,494</u></u>	<u><u>\$ 421,725</u></u>

None of the financial assets included above are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the consolidated statement of financial position. Receivables includes pledges with time restrictions that are expected to be collected within one year. Earnings from unspent bond proceeds of \$29,040 can be used for bond-related or general operating purposes at management's discretion. The University's endowment investments, which include donor-restricted and quasi-endowment assets, are subject to a Board spending policy of 5 percent. Aside from the portion allocated for general expenditures, these quasi-endowment funds can be accessed, if necessary, with Board approval. For additional details on endowment disclosures, see Notes 9 and 16 for additional disclosures on Board-designated quasi-endowment assets.

To address any unanticipated liquidity needs, the University maintains a committed line of credit of \$75,000, which can be drawn upon if needed. As of June 30, 2024 and 2023, there was no outstanding balance on the line of credit.

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4. Receivables, Net

The major components of receivables, net of reserves for doubtful accounts of \$15,100 and \$14,800 as of June 30, 2024 and 2023, respectively, were as follows:

RECEIVABLES	2024	2023
Student	\$ 16,643	\$ 15,749
Notes	2,940	3,240
Federal appropriation	3,405	3,405
Patients and third-party payors - Hospital	50,803	35,909
Patients and third-party payors - FPP	3,114	39
Grants and contracts	29,061	29,263
Contributions	44,649	61,558
Auxiliary services	4,259	2,977
Real property	15,017	64,010
Other	4,398	—
Total receivables	<u>\$ 174,289</u>	<u>\$ 216,150</u>

As of June 30, 2024, the University did not have any single customer, donor, or party that represented greater than 10% of total receivables. As of June 30, 2023, the University had one lease which attributed to 19% of total receivables.

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.

Patient receivables represent unpaid health care fees for health care services provided to the patients. The receivable balance is based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors.

Contributions receivable at June 30, 2024 and 2023 are expected to be received as follows:

CONTRIBUTIONS RECEIVABLE	2024	2023
Within one year	\$ 38,312	\$ 47,963
Between one and five years	13,900	21,780
Thereafter	1,201	2,002
Contributions receivable gross	53,413	71,745
Unamortized discount on contributions receivable (2%-6.5%)	(1,375)	(4,563)
Contributions receivable, net of discounts	52,038	67,182
Allowance for uncollectible contributions	(7,389)	(5,624)
Total contributions receivable, net of discounts and allowance	<u>\$ 44,649</u>	<u>\$ 61,558</u>

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5. Inventories, Prepaids and Other Assets

Components of inventories, prepaids and other assets accounts as of June 30, 2024 and 2023 are as follows:

INVENTORIES, PREPAIDS, AND OTHER ASSETS	2024	2023
Inventories - Hospital	\$ 5,972	\$ 6,103
Prepaid expenses	20,066	15,955
Capitalized internal-use software	16,779	17,075
Beneficial interest trust	3,296	2,829
Self-insured assets	5,328	5,328
Intellectual property costs	778	864
Other	8,591	8,795
Total inventories, prepaids, and other assets	<u>\$ 60,810</u>	<u>\$ 56,949</u>

6. Deposits with Trustees

DEPOSITS WITH TRUSTEES (DEDICATED ASSETS)	2024	2023
Debt service reserve	\$ 26,407	\$ 25,450
Advanced bond payments	13,681	—
Health insurance trust	823	1,718
Total deposits with trustees	<u>\$ 40,911</u>	<u>\$ 27,168</u>

Debt Service Reserve Fund

As required by the 2011B Revenue Bonds and 2021A bonds, Howard maintains a debt service reserve fund to meet or exceed the Debt Service Fund Requirements of \$24,292. As of June 30, 2024 and 2023, the balance of the debt service reserve fund was \$26,407 and \$25,450, respectively. The assets in this reserve fund consist primarily of cash, fixed income investments, capitalized interest and other short-term securities.

In June 2024, Howard made advanced payments toward upcoming bond obligations. These payments are recorded under the current portion of deposits with trustees.

7. Reserve for Self-insured Liabilities

RESERVE FOR SELF-INSURED LIABILITIES	2024	2023
Professional liability	\$ 51,672	\$ 52,104
Workers' compensation	4,988	4,988
Health insurance trust	3,866	4,103
Total reserve for self-insured liabilities	<u>\$ 60,526</u>	<u>\$ 61,195</u>

(a) Professional Liability

Howard University is subject to various claims and litigation related to its hospital and clinical. Based on assessments from actuaries and legal counsel, Howard has accrued professional liability reserves of \$51,672 and \$52,104, as of fiscal years ended June 30, 2024 and 2023, respectively. These reserves are intended to cover probable losses from both filed (asserted) and potential (unasserted) claims. Professional liability reserves are reported as part of self-insured liabilities in the consolidated statement of financial position.

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The following tables summarizes changes in professional liability for fiscal years ended June 30, 2024 and 2023:

PROFESSIONAL LIABILITY	2024	2023
Beginning balance	\$ 52,104	\$ 52,992
Malpractice claims expense	10,661	4,935
Settlement payments	(11,093)	(5,823)
Ending balance	<u>\$ 51,672</u>	<u>\$ 52,104</u>

(b) Workers' Compensation

For fiscal years ended June 30, 2024 and 2023, Howard maintained \$5,221 and \$5,173 in letters of credit, respectively, as collateral for specific insurance carriers. Howard is self-insured for workers' compensation claims up to per occurrence retention of \$500, with any excess covered through commercial insurance.

Workers' compensation expenses were \$1,633 and \$561 for fiscal years ended June 30, 2024 and 2023, respectively, and are included in employee benefits.

The total liability for future workers' compensation claims includes amounts for claims covered under existing insurance policies. Reserves are based on actuarial estimates for both asserted and unasserted claims.

(c) Health Insurance

Howard University established a revocable self-insured trust fund to partially fund group health benefits for its employees. The fund's assets primarily consist of money market investments. Deposits to the fund include amounts withheld from employees' salaries and Howard's contributions, based on estimates from claims administrator. Disbursements from the fund are made in according to the payment plan established with the claims administrator.

8. Fair Value Measurements

U.S. GAAP defines fair value 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. 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.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

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.

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- (2) For investments in government securities, domestic fixed income 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.
- (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. These investments are reported at the Net Asset Value (NAV), as provided by the fund managers. The NAV is used as a practical expedient to measure fair value but is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. The fund managers use pricing models, appraisals, discounted cash flow models, and other valuation techniques to determine fair value of the underlying investments in each fund. Units held within common/collective trusts (CCTs) are valued at the NAV.
- (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) The estimated fair value of Howard’s bonds is determined based on quoted market prices. As of June 30, 2024 and 2023, the estimated fair value was approximately \$736,075 and \$713,879, 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.

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Howard's financial liabilities, as referenced above, are presented in Footnote 14. Howard's financial assets as of June 30, 2024 and 2023 are subject to fair value accounting. Fair value as of June 30, 2024 is as follows:

FAIR VALUE	Level 1	Level 2	Level 3	Total
Non-investment assets				
Unexpended bond proceeds (5)	\$ —	\$ 315,096	\$ —	\$ 315,096
Deposits with trustees (6)	14,505	26,406	—	40,911
Other assets (7)	—	—	3,620	3,620
Total non-investment assets	\$ 14,505	\$ 341,502	\$ 3,620	\$ 359,627
Operating investments				
Common stock (3)	9,632	—	—	9,632
Total operating investments	\$ 9,632	\$ —	\$ —	\$ 9,632
Restricted investments				
Money market instruments (1)	—	19,433	—	19,433
Common stock (3)	30,482	—	—	30,482
Total restricted investments	\$ 30,482	\$ 19,433	\$ —	\$ 49,915
Endowment investments				
Money market funds (1)	6,792	15,476	—	22,268
Common stock (3)	213,181	—	—	213,181
Fixed income				
Corporate bonds (2)	55,677	—	—	55,677
Mutual funds investment				
Domestic common stock (3)	9,950	—	—	9,950
Domestic fixed income (2)	58,191	—	—	58,191
Total endowment investments	\$ 343,791	\$ 15,476	\$ —	\$ 359,267
Assets not subject to fair value reporting (8)	13,738	—	—	13,738
Liabilities not subject to fair value reporting (8)	(1,537)	—	—	(1,537)
Total investments	\$ 396,106	\$ 34,909	\$ —	\$ 431,015
Total non-investments and investments, net of liabilities	\$ 410,611	\$ 376,411	\$ 3,620	\$ 790,642
Total investments measured at the NAV as a practical expedient (4)				678,098
Total assets and liabilities measured at fair value				\$ 1,468,740

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Fair value as of June 30, 2023 is as follows:

FAIR VALUE	Level 1	Level 2	Level 3	Total
Non-investment assets				
Unexpended bond proceeds (5)	\$ —	\$ 340,386	\$ —	\$ 340,386
Deposits with trustees (6)	1,719	25,449	—	27,168
Other assets (7)	—	—	3,153	3,153
Total non-investment assets	\$ 1,719	\$ 365,835	\$ 3,153	\$ 370,707
Operating investments				
Common stock (3)	7,719	—	—	7,719
Total operating investments	\$ 7,719	\$ —	\$ —	\$ 7,719
Restricted investments				
Money market instruments (1)	—	17,957	—	17,957
Common stock (3)	25,906	—	—	25,906
Government bonds (2)	9,970	—	—	9,970
Total restricted investments	\$ 35,876	\$ 17,957	\$ —	\$ 53,833
Endowment investments				
Money market funds (1)	4,409	43,457	—	47,866
Common stock (3)	176,715	—	—	176,715
Fixed income				
Government bonds (2)	6,360	—	—	6,360
Corporate bonds (2)	16,215	1	—	16,216
Mutual funds investment				
Domestic common stock (3)	31,387	—	—	31,387
Domestic fixed income (2)	41,343	—	—	41,343
Total endowment investments	\$ 276,429	\$ 43,458	\$ —	\$ 319,887
Assets not subject to fair value reporting (8)	4,812	—	—	4,812
Liabilities not subject to fair value reporting (8)	(2,156)	—	—	(2,156)
Total investments	\$ 322,680	\$ 61,415	\$ —	\$ 384,095
Total non-investments and investments, net of liabilities	\$ 324,399	\$ 427,250	\$ 3,153	\$ 754,802
Total investments measured at the NAV as a practical expedient (4)				608,884
Total assets and liabilities measured at fair value				\$ 1,363,686

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Investments measured at the NAV as a practical expedient at June 30, 2024 are summarized as follows:

INVESTMENTS MEASURED AT NAV	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds(a)	\$ 77,227	\$ 157	Monthly-Annually	45-90 days
Common stock	43,694	—	Monthly	<30 days
Real estate funds(b)	53,838	7,222	—	1-10 years
Common/collective trusts(c)	56,788	—	Monthly	—
Limited partnerships(d)	446,551	149,950	—	≤ 10 years
Total investments measured at the NAV as practical expedient	<u>\$ 678,098</u>	<u>\$ 157,329</u>		

Investments measured at the NAV as a practical expedient at June 30, 2023 are summarized as follows:

INVESTMENTS MEASURED AT NAV	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds(a)	\$ 74,612	\$ —	Monthly-Annually	45-90 days
Common Stock	3,670	—	Monthly	<30 days
Real estate funds(b)	51,832	12,468	—	1-10 years
Common/collective trusts(c)	85,357	—	Monthly	—
Limited partnerships(d)	393,413	179,972	—	≤ 10 years
Total investments measured at the NAV as practical expedient	<u>\$ 608,884</u>	<u>\$ 192,440</u>		

The tables presented above represent Howard's net asset value of investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2024 and 2023. Real estate funds and limited partnerships do not have readily ascertainable market values and may be subject to withdrawal restrictions.

The investment objectives for the investments measured using the net asset or unit value are as follows:

- (a) **Hedge Funds:** The objective of the hedge funds is to generate superior risk-adjusted returns on its assets, maximize total return on investments and achieve long-term capital appreciation. This objective is achieved through a diversified mix of strategies including long/short equity, event driven, distressed securities and credit opportunities.
- (b) **Real Estate Funds:** The University achieves its exposure to this asset class through interests in operating partnerships that invest in real estate and real estate-related assets. The various funds are made up of a portfolio of high-yield commercial real estate and real estate-related assets that utilize various structures including mezzanine debt, joint ventures and discounted notes to achieve its objectives. These funds have predetermined termination dates that range from two to ten years with optional renewal terms.
- (c) **Common/Collective Trusts (CCTs):** The University invests a portion of its assets in common collective trusts where its assets are comingled with other assets and invested through one common medium with the goal of pursuing a common strategy of higher returns.
- (d) **Limited Partnerships:** A portion of the University assets are allocated for investment in private equity. This is accomplished through ownership interests in partnerships that pursue this investment approach. The life spans of these partnerships are stated at the inception of each partnership, which as of the year ended June 30, 2024, had a maximum life span of ten years. Throughout the course of the partnership strategic decisions made by the general partners may result in return of capital to the University.

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The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the University 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 fair value measurement as of the reporting date.

Net investment income (loss) is summarized as follows for fiscal years June 30, 2024 and 2023:

NET INVESTMENT INCOME (LOSS)	2024	2023
Interest and dividends	\$ 32,317	\$ 26,904
Net realized gains	40,389	27,153
Net unrealized gains	45,292	17,509
Other investment income, net of expense	2	3
Investment expenses	(10,113)	(11,373)
Total net investment income	<u>\$ 107,887</u>	<u>\$ 60,196</u>
Current-year unrestricted operating return	1,875	1,251
Current-year non-operating investment return (loss):		
Without donor restriction	47,395	27,725
With donor restriction	58,617	31,220
Total current year investment return	<u>\$ 107,887</u>	<u>\$ 60,196</u>
Prior-year (earnings) designated for current operations:		
Without donor restriction	(14,528)	(13,745)
With donor restriction	(14,052)	(7,788)
Total designated for current operations	<u>\$ (28,580)</u>	<u>\$ (21,533)</u>
Net non-operating investment return:		
Without donor restriction	32,867	13,980
With donor restriction	44,565	23,432

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 DC UPMIFA.

Interpretation of Relevant Law

Net Asset Classification - The Board of Trustees of Howard has interpreted the DC 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:

- (a) The original value of gifts with permanent donor-directed use restrictions.
- (b) 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 DC UPMIFA.

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

- (a) The duration and preservation of the fund
- (b) The purposes of Howard and the donor-restricted endowment fund
- (c) General economic conditions
- (d) The possible effect of inflation and deflation
- (e) The expected total return from income and appreciation of investments
- (f) Other resources of Howard
- (g) The investment policies of Howard

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

- (a) General economic conditions
- (b) The possible effect of inflation and deflation
- (c) The expected tax consequences, if any
- (d) The role of an investment/action in context of the entire portfolio
- (e) The expected total income and appreciation
- (f) Other University resources
- (g) The needs to preserve capital and make distributions
- (h) 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, 2024 is as follows:

ENDOWMENT CHANGE IN VALUE	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Endowment net assets, beginning of year	\$ 426,656	\$ 506,050	\$ 932,706
Investment return:			
Investment income	9,747	15,646	25,393
Net appreciation (realized and unrealized)	30,387	38,689	69,076
Total investment return	\$ 40,134	\$ 54,335	\$ 94,469
Contributions	10,452	29,265	39,717
Appropriation of endowment assets for operations	(14,528)	(14,052)	(28,580)
Other changes:			
Transfer and other changes	18,997	(13,498)	5,499
Endowment net assets, end of year	\$ 481,711	\$ 562,100	\$ 1,043,811
Donor-restricted endowment funds	—	562,233	562,233
Underwater endowment funds	—	(133)	(133)
Board designated quasi-endowment	481,711	—	481,711
Endowment net assets, end of year	<u>\$ 481,711</u>	<u>\$ 562,100</u>	<u>\$ 1,043,811</u>

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Notes to the Consolidated Financial Statements
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The change in value and the composition of amounts classified as endowment as of June 30, 2023 is as follows:

ENDOWMENT CHANGE IN VALUE	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
Endowment net assets, beginning of year	\$ 403,766	\$ 455,159	\$ 858,925
Investment return:			
Investment income	9,746	14,780	24,526
Net appreciation (realized and unrealized)	22,328	15,143	37,471
Total investment return	\$ 32,074	\$ 29,923	\$ 61,997
Contributions	408	24,765	25,173
Appropriation of endowment assets for operations	(13,010)	(8,523)	(21,533)
Other changes:			
Transfer and other changes	3,418	4,726	8,144
Endowment net assets, end of year	\$ 426,656	\$ 506,050	\$ 932,706
Donor-restricted endowment funds	—	506,720	506,720
Underwater endowment funds	—	(670)	(670)
Board designated quasi-endowment	426,656	—	426,656
Endowment net assets, end of year	<u>\$ 426,656</u>	<u>\$ 506,050</u>	<u>\$ 932,706</u>

The original gift amount and net appreciation of net assets with donor restrictions as of June 30, 2024 and 2023 is as follows:

ENDOWMENT NET ASSETS WITH DONOR RESTRICTIONS	2024	2023
Original Gift	\$ 302,358	\$ 277,472
Net Appreciation	259,742	228,578
Total endowment net assets with donor restrictions	<u>\$ 562,100</u>	<u>\$ 506,050</u>

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. At June 30, 2024 and 2023 receivables of \$11,314 and \$6,073, respectively are 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 restrictions and totaled \$133 and \$670 as of fiscal years ended June 30, 2024 and 2023, respectively. Howard has adopted a policy allowing spending in 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 DC UPMIFA which allows spending in underwater endowments, in support of an endowment's purpose.

FUNDS WITH DEFICIENCIES	2024	2023
Fair value of underwater endowments	\$ 2,432	\$ 25,223
Original endowment gift amount	2,565	25,893
Deficiencies of underwater endowment funds	<u>\$ (133)</u>	<u>\$ (670)</u>

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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 5 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.

10. Long-Lived Assets

LONG-LIVED ASSETS	2024	2023
Land and land improvements	\$ 63,547	\$ 63,547
Buildings and building improvements	1,043,659	1,027,145
Property held for expansion	45,891	45,891
Furniture and equipment	366,798	358,844
Library books	92,264	92,264
Works of art, historical treasures, literary works and artifacts	43,758	43,755
Software	109,401	106,932
Software in progress	12,135	12,135
Construction in progress	266,561	149,795
Long-lived assets, gross	2,044,014	1,900,308
Accumulated depreciation	(1,227,716)	(1,189,578)
Long-lived assets, net	<u>\$ 816,298</u>	<u>\$ 710,730</u>

For fiscal years ended June 30, 2024 and 2023, there were \$164 and \$19,379, respectively, 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, 2024 and 2023 was \$42,442 and \$42,070, respectively. For fiscal years ended 2024 and 2023, net interest costs of \$4,971 and \$11,969, respectively, 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, 2024 and 2023 are as follows:

ACCOUNTS PAYABLE AND ACCRUED EXPENSES	2024	2023
Vendor invoices	\$ 146,563	\$ 113,075
Accrued salaries and wages	22,284	23,893
Accrued employee benefits	8,052	3,633
Accrued annual leave	7,284	6,214
Accrued interest	7,706	7,404
Other	164	2,904
Total accounts payable and accrued expenses	<u>\$ 192,053</u>	<u>\$ 157,123</u>

12. Other Liabilities and Deferred Revenue

Other liabilities are comprised primarily of student deposits and refunds, unclaimed property, deposits held in custody for others, environmental liability, reserves for legal and other contingencies and miscellaneous items. These obligations include the following at June 30, 2024 and 2023:

OTHER LIABILITIES	2024	2023
Environmental liabilities	\$ 560	\$ 1,519
Due to third-party student housing partner	6,122	6,520
Unclaimed property	7,007	6,228
Student deposits and refunds	6,888	7,687
Reserve for legal contingencies	5,240	3,495
Deposits held in custody for others	2,545	1,951
Miscellaneous	6,439	3,932
Total other liabilities	<u>\$ 34,801</u>	<u>\$ 31,332</u>

Howard incurred costs related to remediation of environmental liabilities during fiscal years ended June 30, 2024 and 2023 of \$959 and \$282, respectively.

Deferred revenue represents cash received, but not earned as of June 30, 2024. This is primarily composed of refundable grant revenue advances, deferred lease income and Medicare advance payment program.

DEFERRED REVENUE	2024	2023
Deferred tuition, room and board	\$ 8,050	\$ 5,774
Deferred grant revenue	61,202	63,442
Deferred lease income	47,756	48,243
Medicare advance payment	2,950	2,432
Other	3,641	3,722
Total deferred revenue	<u>\$ 123,599</u>	<u>\$ 123,613</u>

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13. Leases

Finance Leases

In fiscal year 2024, the University entered a lease with Cisco Capital to refresh the existing campus wireless network by replacing access points and switches with new models from Cisco Capital. This upgrade aims to streamline and modernize the network, simplify network operations, and improve the student experience. The lease has a term of 60 months and payments of \$1,429 are made annually.

Howard is also obligated under other finance leases for office, technology and medical equipment that extend through fiscal year 2096.

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.

Operating Leases

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

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 finance lease right-of-use assets and accumulated amortization, operating lease right-of-use assets and corresponding liabilities for the fiscal years ended June 30 are as follows:

LEASE RIGHT OF USE ASSETS AND OBLIGATIONS

	2024	2023
Finance lease right of use assets	\$ 52,990	\$ 41,111
Finance lease accumulated amortization	(21,872)	(17,670)
Finance lease right of use assets, net	\$ 31,118	\$ 23,441
Operating lease right of use asset	69,491	39,346
Total right of use assets, net	\$ 100,609	\$ 62,787
Finance lease obligation	\$ 27,626	\$ 21,348
Operating lease obligation	69,123	34,277
Total lease obligation	\$ 96,749	\$ 55,625

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As of June 30, 2024, the minimum future payments were as follows:

LEASE OBLIGATIONS	FINANCE	OPERATING	TOTAL
Future principal and interest years ending June 30			
2025	\$ 6,671	\$ 18,302	\$ 24,973
2026	6,188	11,281	17,469
2027	5,969	7,953	13,922
2028	5,420	5,851	11,271
2029	2,768	5,044	7,812
2030 and thereafter	6,810	36,242	43,052
Obligation, gross	\$ 33,826	\$ 84,673	\$ 118,499
Amounts representing interest rates from 2% to 9%	(6,200)	(15,550)	
Total lease obligations, net	<u>\$ 27,626</u>	<u>\$ 69,123</u>	

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

LEASE EXPENSE	2024	2023
Finance lease expense:		
Amortization of right of use assets	\$ 4,203	\$ 4,129
Interest on lease liabilities	1,747	1,974
Total finance lease expense	\$ 5,950	\$ 6,103
Operating lease expense	24,434	14,371
Short term lease expense	8,665	11,336
Total lease expense	<u>\$ 39,049</u>	<u>\$ 31,810</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION FOR LEASES	2024	2023
Cash paid for amounts included in the measurements of lease liabilities:		
Operating cash flows	\$ 17,132	\$ 2,755
Financing cash flows	5,601	4,514
Change in operating right of use (ROU) leases:		
Operating cash flows	\$ —	\$ 2,966

OTHER INFORMATION	2024	2023
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	\$ 11,878	\$ 3,885
Operating leases	51,978	11,912
Weighted-average remaining lease term (in years):		
Finance leases	5.94	7.09
Operating leases	8.73	5.61
Weighted-average discount rate:		
Finance leases	6.12%	6.65%
Operating leases	4.73%	5.65%

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Lessor Sales-Type Leases

Howard Manor Lease

In fiscal year 2020, the University as the lessor, entered into a 99-year ground lease and development agreement with Manor Lessee LLC (Manor) for the approximately 75,000 square foot building at 654 Girard Street, NW, Washington, D.C., (Howard Manor). 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 to the University. Under that agreement, Manor was tasked to construct an 80-unit apartment/housing complex. The agreement granted the University the right to repurchase Manor's lease and to regain management interest and control over the land and improvements.

In fiscal year 2024, the University exercised its repurchase rights for a one-time payment of \$25,791 to Manor. The repurchase allowed the University to regain control over the land and improvements. The University as lessor, subsequently entered into a 31-year ground lease with Provident Group Girard Properties Inc. (PGGPI) for Howard Manor. The terms of the lease are: (i) a one-time payment of \$22,510, provided by funding PGGPI received from Amazon under their Affordable Housing Program; and (ii) annual rent payments of \$400 per year with an annual 2.25% rent increase.

These leases are defined as sales-type leases 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. As of June 30, the lease receivable for sales-type leases in reverse chronological order is as follows:

SALES-TYPE LEASE PAYMENTS RECEIVABLE	2024	2023
Howard Manor	\$ 4,836	\$ 9,884
Shining Star	2,752	2,826
East Towers Lot	—	40,500
Total sales-type lease payments receivable	<u>\$ 7,588</u>	<u>\$ 53,210</u>

As of June 30, 2024, the future minimum sales-type lease payments receivable to be received for years ending at June 30 is as follows:

SALES-TYPE LEASE PAYMENTS RECEIVABLE	June 30
2025	\$ 1,397
2026	664
2027	673
2028	683
2029	693
2030 and thereafter	4,375
Total undiscounted cash flows lease obligations, net	<u>\$ 8,485</u>
Impact of present value discount	(897)
Total sales-type lease payments receivable	<u>\$ 7,588</u>

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Lessor Operating Leases

East Towers Lot Lease

In prior years, the University as lessor, executed a 99-year ground lease for approximately 80,392 square feet of land at 2251 Sherman Avenue, NW, Washington, D.C. and 2047 9th Street, NW, Washington, D.C., (East Towers Lot) for \$60,500. The lease payments were to be paid in three installments: (i) \$20,000 at the initial June 2022 closing; (ii) \$22,000 on the earlier of June 30, 2023 or 30 days after the alley closure pursuant to the agreement; and (iii) \$18,500 on the date that is 15 days after the final approvals for alley closure. Additionally, the University was entitled to receive a 15% share of net proceeds from a refinance or disposition of the initial ground lessee's tenant interest after achievement of stipulated internal rate of return. On July 28, 2023, the University, as lessor, entered into the second amendment to East Towers Lot, converting \$22,000 of outstanding lease receivables into variable payments through first and second-tier project participation. Consequently, in fiscal year 2024, the University recognized an impairment on its net lease receivable, and the lease was reclassified from sales-type to operating.

Lot 3 Lease

In fiscal year 2023, the University as lessor executed a 99-year ground lease for the Lot 3 property located on Georgia Avenue, NW, Washington D.C. for \$32,402. The lease payments will be paid via (i) upfront closing of \$9,969, (ii) \$13,385 on or before June 30, 2023, (iii) \$8,951 by June 30, 2024 and (iv) rent in the amount of \$1 per year. Additionally, the University will be entitled to receive annual participation payment on or before April 30th of each calendar year in an amount equal to 1.5% of net cash flow for the prior calendar year. At the expiration of the terms for the lease, title to and ownership of any improvements then on the land and tenant's leasehold interest therein shall automatically and immediately revert, convey and vest in the University, for no further consideration and free and clear of all mortgages, liens, impositions and defects in title. The lease does not include a guaranteed residual value.

HURB-1 Lease

In fiscal year 2022, the University as lessor executed a 99-year ground lease for approximately 42,750 square feet of land at 1840 7th Street, NW Washington, D.C., for (i) rent in the amount of \$1 per year, (ii) upfront closing of \$16,240, and (iii) an annual participation payment to be paid to the University on or before April 30th of each calendar year in an amount equal to 1.5% of net cash flow for the prior calendar year. At the expiration of the terms for the lease, title to and ownership of any improvements then on the land and tenant's leasehold interest therein shall automatically and immediately revert, convey and vest in the University, for no further consideration and free and clear of all mortgages, liens, impositions and defects in title. The lease does not include a guaranteed residual value.

Howard has several other 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 (i) the Wonder Plaza Building, (ii) space available on the top of certain buildings, and (iii) the ground lease of Barry Place. Other standalone buildings owned by Howard are leased to private companies such as (iv) a public charter school, (v) a car rental company, (vi) a pharmacy, (vii) student housing facilities, (viii) cosmetic store, (ix) restaurant and (x) fast food chain. 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 2023 and thereafter. The total lease income earned for fiscal years ended June 30, 2024, and 2023 was \$4,008 and \$4,806, respectively and are reported in real property revenue on the statements of activities.

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LEASE INCOME	2024	2023
Interest income on sales type lease	\$ 151	\$ 186
Operating lease income	3,857	4,620
Total lease income	<u>\$ 4,008</u>	<u>\$ 4,806</u>

As of June 30, 2024, the future minimum operating lease payments receivable to be received for years ending at June 30 is as follows:

OPERATING LEASE PAYMENTS RECEIVABLE	June 30
2025	\$ 1,977
2026	1,419
2027	1,129
2028	1,014
2029	1,024
2030 and thereafter	65,436
Total operating lease payments receivable	<u>\$ 71,999</u>

14. Bonds Payable and Notes Payable

(a) Bonds Payable

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

BONDS PAYABLE	2024	2023
2023A Future Advance Project Funding Bonds, 3.653% to 4.755% Serial due 2026 through 2053	\$ 3,762	\$ 2,491
2022A Taxable bonds, 5.209% Serial due through 2053	300,000	300,000
2021A Taxable bonds, 3.89% to 4.76% Serial due through 2051	151,285	151,285
2020B Taxable bonds, 1.99% to 3.48% Serial due through 2041	209,085	209,085
2020A Taxable bonds, 2.52% to 3.00% Serial due through 2031	111,645	123,720
2011B Taxable bonds, 7.63% Serial due through 2035	49,325	49,325
2010 Revenue bonds, 5.05% Serial due through 2025	1,423	2,314
Total bonds payable, gross	\$ 826,525	\$ 838,220
Unamortized bond discount	(4,713)	(4,992)
Unamortized bond issuance costs	(10,791)	(11,500)
Total bonds payable, net	<u>\$ 811,021</u>	<u>\$ 821,728</u>

(1) Series 2023A Future Advance Project Funding Bonds

In January 2023, the University issued the Series 2023A Bonds under the Historically Black College and University Capital Loan Financing Program, a federal program of the Department of Education. The proceeds of the Series 2023A Bonds will be used to finance a STEM Building to be located on the premises of the University. The Series 2023A Bonds are a non-conventional bond issuance as financing adopts a draw down convention versus traditional bond issuances where net proceeds from closing are delivered to a designated account. The total draw down of this facility is not to exceed \$224,000. The bonds will bear interest at the prevailing U.S. Treasury yields at the time of each draw. The bonds will have a maturity date of April 1, 2053. At fiscal year ended June 30, 2024, a total of \$3,762 had been drawn under the 2023A Bonds at interest rates between 3.653% and 4.755%.

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(2) Series 2022A Taxable Bonds

In March 2022, the University issued the Series 2022A Taxable Bonds in the amount of \$300,000. The proceeds of the Series 2022A bonds will be used to finance or reimburse itself for (i) costs related to certain capital projects for the University, and (ii) costs of issuance related to the Series 2022A Bonds. The bonds bear interest at 5.209% repayable from 2022 to 2053.

(3) Series 2021A Taxable Bonds

In March 2021, the University issued the Series 2021A Taxable Bonds 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. The 2023 bonds require Howard to maintain a debt service fund of \$11,657. At the fiscal year ended June 30, 2024 the fund balance was \$12,126.

(4) Series 2020B Taxable Bonds

In July 2020, Howard issued \$209,085 of Series 2020B bonds to refund the Series 2011A bonds and 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. The Series 2020B bonds bear interest between 1.99% to 3.48% and are repayable between 2025 and 2041.

(5) 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.

(6) 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. As of June 30, 2024 the fund balance was \$14,281.

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.

(7) 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.

(b) Line of Credit

As of June 30, 2024, Howard has a \$75,000 JP Morgan Revolving Credit Agreement that terminates on December 31, 2025.

There was no outstanding balance at either June 30, 2024 or 2023. Howard is paying a quarterly non-refundable unutilized commitment fee at a rate of 1.55%.

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Compliance with Contractual Covenants

The Series 2011B, Series 2020A, Series 2020B, Series 2021A, Series 2022A, Series 2023A Bonds and the Revolving Credit Agreement all contain restrictive financial covenants as summarized in the table below as of June 30, 2024.

COVENANT	INSTRUMENT	MEASUREMENT DATE	CRITERIA
Debt Service Coverage Ratio	All Debt Instruments	June 30 each year	1.10:1.00
Liquidity Ratio	Revolving Credit Agreement	Quarterly	\$160 million

As of June 30, 2024 and 2023, Howard was compliant with the Debt Service Coverage Ratio measurements for the 2011B, 2020A, 2020B, 2021A, 2022A, and 2023A Bonds and the Liquidity Ratio for Revolving Credit Agreement.

The University has pledged revenue for payment obligations to the Series 2020A, Series 2020B, Series 2022A, and Series 2023A 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 the Hospital. Pledged Revenues also excludes any revenues generated from clinical services related to the Hospital 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

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

(c) Scheduled Bond Repayments

The scheduled principal repayments of bonds payable are as follows as of June 30, 2024:

AGGREGATE ANNUAL MATURITIES	AMOUNT
2025	\$ 13,617
2026	24,596
2027	24,690
2028	25,325
2029	26,010
2030 and thereafter	712,288
Total aggregate annual maturities	<u>\$ 826,525</u>

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 through June 30, 2010. 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.

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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 \$500 and \$529 at fiscal years ended June 30, 2024 and 2023, respectively. The amounts not yet reflected in operating expenses, but included in net assets without donor restrictions pertain to accumulated losses of \$266 and \$260 at June 30, 2024 and 2023, 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 June 30, 2024 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 \$27,030 and \$23,120 for fiscal years ended June 30, 2024 and 2023, 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.

The reconciliation of the Plan's funded status to amounts recognized in the consolidated financial statements at fiscal years ended June 30, 2024 and 2023 are as follows:

	Pension		Medical and Life Insurance		Supplemental	
	2024	2023	2024	2023	2024	2023
Retirement Benefits						
Change in benefit obligation						
Projected benefit obligation at beginning of year	\$ 560,938	\$ 584,733	\$ 38,466	\$ 41,450	\$ 529	\$ 583
Service cost	—	—	268	334	—	—
Interest cost	27,386	26,201	2,065	1,908	27	25
Actuarial (gain)/loss	(2,339)	(8,152)	885	(2,116)	38	18
Benefits paid	(41,806)	(41,844)	(3,195)	(3,365)	(94)	(97)
Employee contributions	—	—	241	255	—	—
Projected benefit obligation at end of period	\$ 544,179	\$ 560,938	\$ 38,730	\$ 38,466	\$ 500	\$ 529
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 581,540	\$ 605,633	\$ —	\$ —	\$ —	\$ —
Actual return on plan assets	25,835	17,751	—	—	—	—
Employer contributions	—	—	2,954	3,110	94	97
Employee contributions	—	—	241	255	—	—
Benefits paid	(41,806)	(41,844)	(3,195)	(3,365)	(94)	(97)
Fair value of plan assets at end of period	\$ 565,569	\$ 581,540	\$ —	\$ —	\$ —	\$ —
Funded status of the plan	\$ 21,390	\$ 20,602	\$ (38,730)	\$ (38,466)	\$ (500)	\$ (529)

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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, 2024 and 2023:

Retirement Benefits	Pension		Medical and Life Insurance		Supplemental	
	2024	2023	2024	2023	2024	2023
Recognized in Statement of Activities:						
Service cost	\$ —	\$ —	\$ 268	\$ 226	\$ —	\$ —
Interest cost	27,386	26,201	2,065	1,532	27	25
Amortization of prior service cost	100	100	(58)	(1,132)	—	—
Amortization of net actuarial loss	7,035	7,511	(430)	(198)	32	31
Expected return on plan assets	(36,957)	(37,556)	—	484	—	—
Net periodic benefit cost	<u>\$ (2,436)</u>	<u>\$ (3,744)</u>	<u>\$ 1,845</u>	<u>\$ 912</u>	<u>\$ 59</u>	<u>\$ 56</u>
Net actuarial loss (gain) during the year	8,783	11,653	885	(2,116)	38	18
Amortization of prior service cost	(100)	(100)	58	1,132	—	—
Amortization of net actuarial loss	(7,035)	(7,511)	430	198	(32)	(31)
Total change in funded status or obligation	<u>\$ 1,648</u>	<u>\$ 4,042</u>	<u>\$ 1,373</u>	<u>\$ (786)</u>	<u>\$ 6</u>	<u>\$ (13)</u>
Total recognized in Consolidated Statements of Activities	<u>\$ (788)</u>	<u>\$ 298</u>	<u>\$ 3,218</u>	<u>\$ 126</u>	<u>\$ 65</u>	<u>\$ 43</u>

Amounts included in net assets without donor restrictions at fiscal years ended June 30, 2024 and 2023:

Retirement Benefits	Pension		Medical and Life Insurance	
	2024	2023	2024	2023
Net actuarial loss	\$ (229,573)	\$ (227,825)	\$ (4,447)	\$ (5,762)
Prior service cost	(1,701)	(1,801)	—	(58)
Total retirement benefits	<u>\$ (231,274)</u>	<u>\$ (229,626)</u>	<u>\$ (4,447)</u>	<u>\$ (5,820)</u>

Over the next fiscal year, an estimated net actuarial loss of \$3,050, a prior services cost/(credit) of \$100, and transition obligation of \$0, are projected to be accounted for as part of the net periodic benefit cost for the pension and post-retirement plans.

There were no contributions to the pension plan in fiscal years ended June 30, 2024 and 2023, respectively. No contributions are projected for fiscal year 2025.

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for fiscal years ended June 30, 2024 and 2023 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2024	2023	2024	2023
Discount rate	5.37%	5.10%	5.72%	5.65%
Expected return on plan assets	6.50%	6.50%	—%	—%
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, 2024 and 2023 were as follows:

Actuarial Assumptions	Pension Benefits		Post-retirement Benefits	
	2024	2023	2024	2023
Discount rate	5.10%	4.67%	5.65%	4.82%
Expected return on plan assets	6.50%	6.50%	—%	—%
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, 2024 were as follows:

PENSION PLAN INVESTMENTS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money market funds (4)	\$ —	\$ 6,726	\$ —	\$ 6,726
U.S. government securities (3)	71,015	—	—	71,015
Common stock (1)	27,832	—	—	27,832
Fixed income	5,521	—	—	5,521
Mortgage backed securities (2)	—	12,830	—	12,830
Corporate bonds (2)	24,628	149,771	—	174,399
Obligations of foreign governments (3)	—	4,060	—	4,060
Mutual funds				
Domestic fixed income (4)	115,017	—	—	115,017
Total assets	\$ 244,013	\$ 173,387	\$ —	\$ 417,400
Assets/(Liabilities):				
Financial derivatives – option contracts	\$ —	\$ 1,828	\$ —	\$ 1,828
Total assets/(liabilities)	\$ —	\$ 1,828	\$ —	\$ 1,828
Operating asset not subjected to fair value reporting	\$ 71,361	\$ —	\$ —	\$ 71,361
Operating liabilities not subjected to fair value reporting	(96,425)	—	—	(96,425)
Total pension plan investments, net of liabilities	\$ 218,949	\$ 175,215	\$ —	\$ 394,164
Total investments measured at the NAV as a practical expedient				173,221
Total plan assets				\$ 567,385

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Pension plan investments as of June 30, 2023 were as follows:

PENSION PLAN INVESTMENTS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money market funds (4)	\$ —	\$ 1,763	\$ —	\$ 1,763
U.S. government securities (3)	83,420	—		83,420
Common stock (1)	44,707	—	—	44,707
Fixed income	5,008	—	—	5,008
Mortgage backed securities (2)	—	9,547	—	9,547
Corporate bonds (2)	—	133,820	—	133,820
Obligations of foreign governments (3)	—	201	—	201
Mutual funds				
Domestic fixed income (4)	103,121	—	—	103,121
Total assets	\$ 236,256	\$ 145,331	\$ —	\$ 381,587
Liabilities:				
Financial derivatives – option contracts	\$ —	\$ (1,934)	\$ —	\$ (1,934)
Total liabilities	\$ —	\$ (1,934)	\$ —	\$ (1,934)
Operating asset not subjected to fair value reporting	\$ 20,771	\$ —	\$ —	\$ 20,771
Operating liabilities not subjected to fair value reporting	(18,754)	—	—	(18,754)
Total pension plan investments, net of liabilities	\$ 238,273	\$ 143,397	\$ —	\$ 381,670
Total investments measured at the NAV as a practical expedient				201,925
Total plan assets				\$ 583,595

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2024 and 2023.

- (1) **Common Stock:** Valued at the closing price as reported on the relevant stock exchange.
- (2) **Corporate Bonds, Mortgage-Backed Securities:** Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.
- (3) **U.S. Government Securities and Obligations of Foreign Governments:** Valued using pricing models maximizing the use of observable inputs for similar securities.

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- (4) **Money Market Funds, Mutual Funds, and Other Registered Investments:** Represent investments with various investment managers. The mutual funds are valued at the daily closing net asset value as reported by the fund. Mutual funds held by the Plan are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded. Money market investments are short-term investments in money market mutual funds which invest in highly liquid government or corporate debt instruments. The Plan invests in a other registered investment called the PIMCO Long Duration Credit Bond Portfolio, which seeks to maximize return by investing in corporate fixed income instruments, options, futures, and swap agreements. They are comprised of units held within a portfolio of an open-end management investment company and are valued at the NAV. The portfolios are registered with the SEC, but are not publicly traded. The NAV is used as a practical expedient to estimate fair value and is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

Plan investments measured at the NAV as a practical expedient are summarized for fiscal year 2024 as follows:

INVESTMENTS MEASURED AT NAV	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Common stock	6,087	—	Monthly	0
Real estate funds (b)	20,630	2,234	—	1-5 years
Common/collective trusts (c)	31,577	—	Monthly	—
Limited partnerships (d)	114,927	23,910	—	< 10 years
Total investments measured at the NAV as practical expedient	<u>\$ 173,221</u>	<u>\$ 26,144</u>		

Plan investments measured at the NAV as a practical expedient are summarized for fiscal year 2023 as follows:

INVESTMENTS MEASURED AT NAV	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption/ Withdrawal Notice Period
Hedge funds (a)	\$ 13,569	\$ —	Monthly- Annually	45-90 days
Real estate funds (b)	21,984	3,210	0	1-5 years
Common/collective trusts (c)	44,952	—	Monthly	0
Limited partnerships (d)	121,420	29,906	—	< 10 years
Total investments measured at the NAV as practical expedient	<u>\$ 201,925</u>	<u>\$ 33,116</u>		

The tables presented above represent Howard's net asset value of investments by asset class and their respective liquidity terms and unfunded commitments as of June 30, 2024 and 2023. Real estate funds and limited partnerships do not have readily ascertainable market values and may be subject to withdrawal restrictions. Refer to Note 8 – Fair Value Measurements for further explanation of investment objectives for the investments measured at net asset value.

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.

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

PENSION PLAN ASSET ALLOCATION	2024	2023
Mid-Large Cap U.S. Equity	8.3%	4.4%
International Equity - Developed	2.3%	4.8%
Private Equity/Venture Capital	9.2%	9.7%
Private Debt	7.0%	7.2%
Hedge Funds	—%	1.6%
Inflation Hedging	4.1%	3.9%
Emerging Markets Equity	—%	1.1%
Real Estate	7.3%	8.3%
Liability Hedging Assets	57.4%	56.1%
Cash and Cash Equivalents	4.4%	2.9%
Total pension plan asset allocation	100.0%	100.0%

As a result of the Pension Plan achieving fully funded status, a trigger-point methodology is used to determine the allocation for each class.

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2024 is 5.31%. 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:				
2025	\$ 48,844	\$ 4,086	\$ 50	\$ 4,036
2026	47,847	3,936	46	3,890
2027	46,749	3,816	42	3,774
2028	45,370	3,694	39	3,655
2029	43,769	3,553	35	3,518
Years 2030-2034	191,988	15,828	132	15,696
Total expected future benefit payments	\$ 424,567	\$ 34,913	\$ 344	\$ 34,569

The mortality retirement rates base table used Pri-2012 Mortality Table without collar adjustment projected using the MP-2021 Mortality Improvement Scale.

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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%

16. Net Assets

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

NET ASSETS WITH DONOR RESTRICTIONS	2024	2023
Restricted for specified purposes:		
Scholarships	\$ 79,909	\$ 77,200
Professorships	27,029	25,195
Student loans	3,298	3,224
General operations and other	136,215	104,205
Total subject to purpose restrictions	<u>\$ 246,451</u>	<u>\$ 209,824</u>
Total perpetual funds	<u>\$ 316,399</u>	<u>\$ 302,902</u>
Endowments subject to spending policy and appropriation:		
Scholarships	\$ 95,299	\$ 85,409
Professorships	36,474	32,769
Student loans	115	41
Federal term endowment	199,728	186,536
General operations and other	14,604	10,972
Total endowments subject to spending policy and appropriation	<u>\$ 346,220</u>	<u>\$ 315,727</u>
Total net assets with donor restrictions	<u><u>\$ 909,070</u></u>	<u><u>\$ 828,453</u></u>

The Federal term endowment restriction is for 20 years for each contribution beginning in 1985. Howard transfers the original contribution amount, plus accumulated investment returns, to net assets without donor restrictions at the end of each 20-year period. For fiscal year ended June 30, 2024, there were transfers of \$12,665; no transfers for fiscal year ended June 30, 2023.

For the fiscal years ended June 30, 2024 and 2023, net assets without donor restrictions were \$464,799 and \$512,874, respectively. Net assets without donor restrictions include board-designated and undesignated amounts. Any revenue or expense transactions funded by contributions without external donor restrictions are classified as undesignated amounts.

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

NET ASSETS WITHOUT DONOR RESTRICTIONS	2024	2023
Undesignated	\$ —	\$ 86,218
Board-designated	464,799	426,656
Total net assets without donor restrictions	<u><u>\$ 464,799</u></u>	<u><u>\$ 512,874</u></u>

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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 the fiscal years ended June 30, 2024 and 2023 are as follows:

NET ASSETS RELEASED FROM RESTRICTIONS	2024	2023
Expiration of time and other restrictions	\$ 12,665	\$ —
Satisfaction of purpose restrictions:		
Scholarships and fellowships	15,258	13,194
Professorships	1,228	1,079
Student loans	337	515
General operations and other	8,394	3,955
Total net assets released from restrictions	<u>\$ 37,882</u>	<u>\$ 18,743</u>

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17. Consolidated Statements of Functional Expenses

Howard presents its statements of activities by program. 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.

Howard engages in fundraising activities in support of the University. Costs associated with fundraising for fiscal years ended June 30, 2024 and 2023 are \$7,741 and \$4,850, respectively, and are included in Administrative and Support Services.

For the year ended June 30, 2024	Program Services					Administrative and Support Services	Total Operating Expenses
	Academic and Student Support	Research	Healthcare Services	Auxiliary Enterprises	Total Program Services		
Operating expenses:							
Compensation	\$ 226,540	\$ 49,148	\$ 203,880	\$ 7,055	\$ 486,623	\$ 111,094	\$ 597,717
Medical and office supplies	5,201	6,068	30,299	171	41,739	4,441	46,180
Repairs and maintenance	6,663	2,431	527	1,463	11,084	24,344	35,428
Food service costs	81	—	4,173	22,470	26,724	15	26,739
Grant subcontracts	15,195	20,296	—	—	35,491	72	35,563
Insurance and risk management	9,748	—	13,651	—	23,399	8,557	31,956
Professional and administrative services	63,896	13,902	52,546	20,315	150,659	123,638	274,297
Impairment of net lease investment (receivable)	—	—	—	—	—	22,151	22,151
Other costs	11,454	1,206	4,344	1,811	18,815	8,669	27,484
Total operating expenses before net interest, depreciation, and amortization	338,778	93,051	309,420	53,285	794,534	302,981	1,097,515
Net interest expense	—	—	3,208	—	3,208	30,796	34,004
Depreciation and amortization	21,568	2,016	5,943	3,415	32,942	9,586	42,528
Net interest, depreciation, and amortization	21,568	2,016	9,151	3,415	36,150	40,382	76,532
Total operating expenses	<u>\$ 360,346</u>	<u>\$ 95,067</u>	<u>\$ 318,571</u>	<u>\$ 56,700</u>	<u>\$ 830,684</u>	<u>\$ 343,363</u>	<u>\$1,174,047</u>

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For the year ended June 30, 2023	Program Services					Administrative and Support Services	Total Operating Expenses
	Academic and Student Support	Research	Healthcare Services	Auxiliary Enterprises	Total Program Services		
Operating expenses:							
Compensation	\$ 227,374	\$ 40,753	\$ 189,016	\$ 8,020	\$ 465,163	\$ 77,990	\$ 543,153
Medical and office supplies	8,115	5,122	31,202	816	45,255	4,893	50,148
Repairs and maintenance	11,089	1,453	1,680	1,999	16,221	6,747	22,968
Food service costs	21	10	3,792	20,299	24,122	198	24,320
Grant subcontracts	13,553	21,578	1	19	35,151	352	35,503
Insurance and risk management	11,752	—	5,413	—	17,165	6,836	24,001
Professional and administrative services	53,933	9,834	60,921	9,637	134,325	112,768	247,093
Other costs	12,492	1,176	4,892	1,998	20,558	2,611	23,169
Total operating expenses before net interest, depreciation, and amortization	338,329	79,926	296,917	42,788	757,960	212,395	970,355
Net interest expense	—	—	2,843	—	2,843	30,558	33,401
Depreciation and amortization	20,814	1,945	6,096	3,296	32,151	10,090	42,241
Net interest, depreciation, and amortization	20,814	1,945	8,939	3,296	34,994	40,648	75,642
Total operating expenses	<u>\$ 359,143</u>	<u>\$ 81,871</u>	<u>\$ 305,856</u>	<u>\$ 46,084</u>	<u>\$ 792,954</u>	<u>\$ 253,043</u>	<u>\$1,045,997</u>

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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 fiscal years ending 2021, 2022, and 2023.

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in a decrease in net patient service revenues of approximately \$2,507 for fiscal year ended June 30, 2024 and an increase of approximately \$406 for fiscal year ended June 30, 2023.

THIRD-PARTY SETTLEMENT REVENUE

	2024	2023
Medicare pass-through	\$ 16,841	\$ 14,168
Disproportionate Share Hospital	39,971	59,948
Graduate and Indirect Medical Education	17,482	16,786
Other	799	3,313
Total third-party settlement revenue	<u>\$ 75,093</u>	<u>\$ 94,215</u>

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 \$3,209 and \$8,566 for the years ended June 30, 2024 and 2023, respectively.

20. Insurance and Risk Management

Howard University is a subscriber in Pinnacle Consortium of Higher Education, a Vermont Reciprocal Risk Retention Group that includes 17 other institutions of higher education institutions. Pinnacle provides commercial general and specific liability coverage. Howard's annual payments to Pinnacle for insurance coverage are based on actuarial studies and are recorded as expenses. The University holds an approximate 6% interest in Pinnacle, classified in restricted investments. Additionally, Howard has purchased liability insurance coverage exceeding primary coverage, with limits of \$125,000 from commercial insurers.

The University's self-insured program covers professional liability costs up to seven thousand five hundred dollars per occurrence, depending on the cause. Two layers of excess insurance provide additional coverage:

- (a) First layer: Coverage up to thirty five thousand dollars on a claims-made basis is purchased through the Howard University Capitol Insurance Company Ltd. (HUCIC), a captive insurance company organized under Cayman Islands law.
- (b) Second layer: Coverage up to fifty thousand dollars on a claims-made basis is provided by an independent excess insurance company. This layer also covers patient care-related general and professional liability.

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

INSURANCE AND RISK MANAGEMENT	2024	2023
Malpractice claims expense	\$ 9,349	\$ 5,239
Malpractice excess insurance	3,766	3,133
Student health	9,738	8,971
General and other	9,103	6,658
Totals insurance and risk management	<u>\$ 31,956</u>	<u>\$ 24,001</u>

21. 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, 2024 and 2023 Howard reserved \$5,240 and \$3,495 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 is exposed to concentration risk related to labor subject to collective bargaining agreements (CBA). The risk is associated with the potential for labor disputes, strikes, and other labor related disruptions that could adversely affect the University's operations and financial performance. As of the balance sheet date approximately 12% of the labor force is covered by a CBA, and 11% covered by an agreement that will expire within one year.

22. 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.

During the year ended June 30, 2022, the University received federal funding from the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) Act for HBCU Education Stabilization Fund in the amount of approximately \$35,000 related to relief efforts in light of COVID-19. During the years ended June 30, 2024 and 2023, the University recognized contribution revenue of approximately \$5,364 and \$5,991, respectively, for the institutional portion of this grant.

23. 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 (the Middle School), which operates from premises owned by Howard. The Middle School is a separate legal entity. For fiscal years ended June 30, 2024 and 2023, Howard has contributed to the Middle School as follows:

RELATED PARTY TRANSACTIONS	2024	2023
Cash operating support	\$ 500	\$ 500
Facility leased (market value)	1,451	1,451
Total related party transactions	<u>\$ 1,951</u>	<u>\$ 1,951</u>

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(b) Provident Group – Bison Properties Inc. (Provident)

On July 13, 2022, Provident Resources Group Inc., acquired all outstanding 5.91% Senior Secured Notes due June 30, 2031, from Corvias Campus Living-HU LLC, under a Note Purchase Agreement associated with a Service Concession Agreement. Provident, as the Required Holder and Approved Lender, terminated (i) the Concessionaire Account Manager; (ii) Corvias as the Concessionaire, (iii) Corvias Management, LLC as the Project Manager and Residence Life Service Provider. Provident assumed the Concessionaire role and appointed the University to temporarily oversee management and resident life services.

On December 1, 2022, The District of Columbia authorized the issuance of (i) its District of Columbia Revenue Bonds (Provident Group - Bison Properties Issue), Senior Series 2022A, in the aggregate principal amount of \$225,000, (ii) its District of Columbia Revenue Bonds, Subordinate Series 2022B-1, in aggregate principal amount of \$25,000, and (iii) its District of Columbia Revenue Bonds, Subordinate Series 2022B-2, in the aggregate principal amount of \$49,882. These bonds, maturing on July 1, 2059, facilitated a loan to Provident Group - Bison Properties and utilized to repay accrued interest on the Series 2020 loan and the principal of the Towers, Drew, and Cook Secured Note.

Repayment of the bonds is secured by revenues from the student housing facilities, including Axis (formerly Provident Group - Howard Center Inc.), Quad, Drew, Cook and Towers, which are owned by Howard University in fee simple. In connection with the issuance of the Series 2022 Bonds, The University and Provident agreed to terminate and re-execute the ground leases to align with the terms of the bonds and the loan. The University, as the ground lessor, will receive ground lease payments after all expenses and cash reserve requirements are met. The properties and associated revenues will revert to the University after the ground leases end, and debts are fully paid.

(c) Provident Group - Howard Properties LLC (Provident)

On February 14, 2013, the University entered a 40-year ground lease with Provident Group – Howard Properties, LLC and Provident Resources Group, Inc. (Owner). The Owner committed to the designing, constructing, and furnishing the College Hall North and College Hall South housing facilities for the University's benefit. Provident Group financed this construction by issuing \$107,965 in revenue bonds through the District of Columbia. Repayment of the bonds is secured by revenues from the student housing facilities, which are owned by Howard University in fee simple. The University, as the ground lessor, will receive ground lease payments after all expenses and cash reverses requirements are met. College Hall North and College Hall South and associated revenues will revert to the University after the ground lease end on the earlier of January 31, 2053, or the date on which the Series 2013 bonds are fully paid.

(d) Campus Apartments Management, LLC

On December 20, 2022, the University, acting as Manager of all student housing facilities, delegated daily operations, management, maintenance, and repair responsibilities to Campus Apartment LLC for a term of five years through a sub-management agreement.

(e) 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.

(f) 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.

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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 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.

(g) Trustees and Officers

Transactions between the University and any of its trustees and officers are subject to the University's conflict of interest policies, which require disclosure of conflict of interests and abstention by the conflicted persons from University decision making.

24. Subsequent Events

The University evaluated subsequent events through December 5, 2024, which is 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 July 2024, the University, as lessee, entered into a 20-year lease with 2711 Georgia Ave, NW, Washington, D.C. Rock Creek - Bison LLC to lease commercial space. The lease liability equals the present value of unpaid lease payments of \$32,583, discounted at the risk-free rate, and right of use asset of \$32,583. The University has concluded this will be an operating lease.
- (b) In July 2024, the University, as lessee, entered into a 5-year lease with 2711 Georgia Ave, NW, Washington, D.C. Rock Creek - Bison LLC to lease residential space. The lease liability equals the present value of unpaid lease payments of \$12,911, discounted at the risk-free rate, and right of use asset of \$12,911. The University has concluded this will be an operating lease.

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