The Howard University Hospital

(an unincorporated operating segment of The Howard University)
Financial Statements
June 30, 2016, 2015 and 2014

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Independent Auditor's Report

Board of Trustees of
The Howard University

We have audited the accompanying financial statements of The Howard University Hospital (the "Hospital"), an unincorporated operating segment of The Howard University ("Howard"), which comprise the statements of financial position as of June 30, 2016, 2015 and 2014, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Howard University Hospital as of June 30, 2016, 2015 and 2014, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

December 21, 2016

Statements of Financial Position **As of June 30:** *(in thousands)*	**2016**	**2015**	**2014**
Assets:			
Current assets			
Cash and cash equivalents	$ 12,444	$ 14,648	$ 4,270
Deposits with trustees	348	137	415
Patient Receivable, net of allowance (see note 6)	39,351	26,601	36,716
Inventories and prepaid	5,233	4,913	6,820
Other receivables	5,371	1,796	2,612
Total current assets	**62,747**	**48,095**	**50,833**
Non-current assets			
Deposits with trustees	1,380	1,380	1,380
Third Party & Insurance Recoveries, net	13,440	10,723	19,977
Property, plant and equipment, net	90,369	104,146	119,646
Other non-current assets, net	6,218	6,286	6,005
Total Assets	**$ 174,154**	**$ 170,630**	**$ 197,841**
Liabilities:			
Current liabilities			
Accounts payable and accrued expenses	$ 31,276	$ 31,803	$ 39,806
Accrued postretirement benefits	777	812	879
Reserve for self-insured liabilities	3,818	3,410	3,822
Bonds payable	464	37	16
Capital lease obligations	7,121	5,039	6,141
Due to Howard University	805	805	805
Other liabilities	3,157	1,033	851
Total current liabilities	**47,418**	**42,939**	**52,320**
Non-current liabilities			
Accrued postretirement benefits	14,847	14,626	15,842
Underfunded defined benefit pension plan	48,847	36,923	30,199
Reserve for self-insured liabilities	67,110	71,057	69,082
Bonds payable	31,648	32,051	32,084
Capital lease obligations	16,845	24,630	29,669
Due to Howard University	37,400	37,992	17,217
Other liabilities	2,616	2,538	2,461
Total Liabilities	**266,731**	**262,756**	**248,874**
Net Assets (deficit):			
Unrestricted	(137,577)	(137,126)	(96,033)
Inter-divisional transfer	45,000	45,000	45,000
Total net assets (deficit)	**(92,577)**	**(92,126)**	**(51,033)**
Total liabilities and net assets (deficit)	**$ 174,154**	**$ 170,630**	**$ 197,841**

The accompanying notes are an integral part of these financial statements

Statements of Operations and Changes in Net Assets (Deficit) **For Fiscal Years Ended June 30:** *(in thousands)*	**2016**	**2015**	**2014**
Patient service revenue, net of contractual allowances, charity care and discounts	$ 247,579	$ 253,787	$ 229,808
Less: Bad debt expense	19,504	22,872	20,056
Total patient service revenue, net	228,075	230,915	209,752
Federal appropriation	27,046	26,021	26,700
Other income	10,070	7,211	8,102
Total operating revenues	**265,191**	**264,147**	**244,554**
Salaries and wages	121,909	133,015	148,112
Employee benefits other than retirement plans	22,625	30,387	30,406
Retirement plans including amortization of actuarial losses previously recognized as non-operating items ($2,125), ($1,873) and ($2,254)	498	5,531	6,202
Utilities and telecommunications	7,896	8,805	9,274
Medical and office supplies	21,351	28,471	30,570
Repairs and maintenance	10,494	11,208	8,466
Food service costs	2,300	3,255	3,585
Insurance and risk management	6,149	11,236	11,950
Professional and administrative services	33,893	30,253	32,162
Provision for bad debts	-	-	(127)
Interest expense	4,415	4,799	5,010
Depreciation	14,133	17,247	17,667
Total operating expenses	**245,663**	**284,207**	**303,277**
Operating revenues under operating expenses	**19,528**	**(20,060)**	**(58,723)**
Restructuring costs (see note 4)	-	(9,266)	(1,611)
Realized investment income	399	886	541
Gain on sale of land	-	-	1,675
Excess (Deficit) of revenues under expenses	**19,927**	**(28,440)**	**(58,118)**
Change in funded status of defined benefit pension plan	(13,488)	(9,460)	4,226
Change in obligation for post retirement benefit plan	(6,890)	(3,193)	(6,755)
Change in net assets (deficit)	**$ (451)**	**$ (41,093)**	**$ (60,647)**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows **For Fiscal Years Ended June 30:** *(in thousands)*	**2016**	**2015**	**2014**
Cash flows from operating activities			
Change in net assets (deficit)	$ (451)	$ (41,093)	$ (60,647)
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:			
Non-operating activities	24,233	21,897	2,461
Non-cash operating items:			
Depreciation	14,133	17,247	17,667
Retirement plan amortization	(2,125)	(1,873)	(2,254)
Non-operating gains from HUDLLC	49	(301)	(537)
Changes in net assets adjusted for non-cash and non-operating items	**35,839**	**(4,123)**	**(43,310)**
Change in receivables	(19,042)	19,368	23,114
Change in inventory, prepaid expenses and other assets	(301)	2,742	839
Change in accounts payable and accrued expenses	(10,525)	(22,562)	(3,531)
Change in reserve for self-insured liabilities	(3,539)	1,564	(2,316)
Change in other liabilities	2,202	259	(50)
Net cash and cash equivalents provided by (used in) operating activities	**4,634**	**(2,752)**	**(25,254)**
Cash flows from investing activities			
Purchases of investments	(211)	-	-
Proceeds from sales of investments	-	279	1,652
Purchases and renovations of property, plant and equipment	(332)	(1,747)	(4,692)
Net cash and cash equivalents used in investing activities	**(543)**	**(1,468)**	**(3,040)**
Cash flows from financing activities			
Payment on bonds payable	-	(35)	(33)
Capital leases (payments) receipts, net	(5,703)	(6,142)	(5,553)
Change in due to (from) Howard University	(592)	20,775	26,631
Net cash and cash equivalents (used in) provided by financing activities	**(6,295)**	**14,598**	**21,045**
Net (decrease) increase in cash and cash equivalents	**(2,204)**	**10,378**	**(7,249)**
Cash and cash equivalents at beginning of year	14,648	4,270	11,519
Cash and cash equivalents at end of year	**$ 12,444**	**$ 14,648**	**$ 4,270**
Supplemental cash flow information:			
Net cash paid for interest	**$ 2,276**	$ 4,799	$ 5,010
Supplemental non-cash investing information:			
Acquisition of equipment under capital leases	$ -	$ -	$ 4,420

The accompanying notes are an integral part of these financial statements

Note 1 Summary of Significant Accounting Policies

(a) *General*

The Howard University Hospital (the "Hospital") is a not-for-profit hospital located in Washington, DC, providing inpatient, outpatient, and emergency care services for residents of the District of Columbia (the "District"). The Hospital operates as an unincorporated operating segment of The Howard University ("Howard"), which is a private, nonprofit institution of higher education (the "University"). The Hospital is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Hospital has experienced significant operating losses over the past three years. Starting in October 2014, Management engaged the California-based Paladin Healthcare Capital, LLC ("Paladin") to provide management services to oversee all the hospital operations. The term of the contract is five years. Their services include reengineering and transforming processes to enhance operational efficiency. Howard University has committed to funding the Hospital as required to meet obligations and continue to operate through December 31, 2017.

(b) *Income Taxes*

The principal operations of the Hospital are recognized as exempt from income tax under the applicable income tax regulations of the Internal Revenue Code and the District. The Hospital's operating activities are included in the University's Form 990. The Hospital does not have any uncertain tax positions as of June 30, 2016, 2015 and 2014.

(c) *Basis of Presentation*

The financial statements of the Hospital have been prepared in accordance with accounting principles generally accepted in the United States of America.

(d) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts realized or paid could differ significantly from the amounts reported for these assets and liabilities. Significant items subject to such estimates and assumptions include the carrying value of patient receivables; property, plant and equipment; and the adequacy of reserves for professional liabilities; pension and post-retirement benefits; self-insured health benefits asset retirement obligations; third-party settlements and legal expense accruals.

(e) ***Net Assets***

Net assets are classified based on the existence or absence of donor imposed restrictions as follows:

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

Temporarily Restricted – Net assets subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions pursuant to those stipulations.

Permanently Restricted – Net assets subject to donor-imposed stipulations that do not expire with time. Generally, the donors of these assets permit the Hospital to use all or part of the income earned on related investments for general or specific purposes.

Income from these assets can be unrestricted or restricted based on donor stipulation. The accompanying financial statements present all net assets of the Hospital that are available for use at the discretion of the board of trustees, or in accordance with any applicable trust agreements.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Investment income is reported as an increase in unrestricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements. As of June 30, 2016, 2015, and 2014, the Hospital did not have any temporarily restricted or permanently restricted net assets.

(f) ***Excess (Deficit)of Revenues Under Expenses***

The Statements of Operations and Changes in Net Assets (Deficit) include unrestricted revenue over expenses. Changes in unrestricted net assets (deficit) which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains (loss) on investments, postretirement and pension related charges other than net periodic pension and postretirement costs, and permanent transfers of assets to and from affiliates for other than goods and services.

(g) ***Receivables and Revenue Recognition***

(1) **Net patient service revenue** is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and bad debt expense. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient and third party healthcare payor receivables are the amount due for patient care services rendered by the Hospital.

(2) **Federal appropriation revenue** is recognized ratably over the award period. The Hospital receives a Federal appropriation from the US Department of Education that can be used for its mission of providing quality healthcare. For the fiscal years ended June 30, 2016, 2015, and 2014, the Hospital received 10%, 10%, and 11% of its revenue support from the Federal appropriation, respectively.

(h) ***Cash and Cash Equivalents***

Short-term investments with maturities, at date of purchase, of three months or less are classified as cash equivalents, except any such investments purchased with funds on deposit with bond trustees, or with funds held in trusts, are classified as Deposits with Trustees. Cash equivalents include certificates of deposit, short-term U.S. Treasury securities, and other short-term, highly liquid investments and are carried at fair value. The Hospital's practice is to enter into repurchase agreements only when collateralized by government or other agency securities held in safekeeping by a bank. These transactions are recorded on the Statements of Financial Position, with any earnings recorded as interest income.

(i) ***Deposits with Trustees***

Deposits with Trustees include assets held by trustees under terms of bond indentures and self-insurance trust agreements. The investments are reported at fair value, based on quoted market prices, and at amortized costs. The investments include a variety of financial instruments; the related values presented in the financial statements are subject to various market fluctuations, which include changes in the equity markets, interest rate environment and general economic conditions.

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. 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. Realized and unrealized investment gains and losses are allocated in a manner consistent with interest and dividends.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Management periodically reviews the portfolio of assets limited as to use and the investment portfolio for declines in the fair value of their marketable securities. Unrealized losses deemed to be permanently impaired are recorded as impairment losses and reported as non-operating expense in the Statement of Operations and Changes in Net Assets and the security is assigned a new cost basis equal to the fair value of the security at the date of determination. No impairments were recorded in the fiscal years ended June 30, 2016, 2015 and 2014.

(j) ***Inventories***

Inventories, which primarily consist of medical supplies and pharmaceuticals, are valued at the lower of cost or market with cost determined on the first-in-first-out basis. The reserve for slow moving and obsolete inventories as of June 30, 2016, 2015, and 2014 was $0, $81, and $257, respectively.

(k) ***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, or if donated, at fair value on the date of receipt. The cost of such assets and the related accumulated depreciation are removed from the accounts in the year the related asset is sold or retired and any gain or loss on disposition is recorded as other operating income/expense. Assets acquired through capital lease transactions are amortized over the lesser of the term of the lease or the economic useful life of the asset. Such amortization is included in depreciation expense and amortization on the Statements of Operations and Changes in Net Assets (Deficit).

Depreciation is computed utilizing the straight line method over the following estimated useful lives of the assets:

Land and land improvements	0-25 years
Building and building improvements	10-40 years
Furniture and equipment	3-20 years
Software and computer hardware	3-10 years

Property, plant and equipment is capitalizable when the unit cost is equal to or exceeds $3 and has a useful life of more than one year.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

(l) ***Impairment of Long-lived Assets***

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Hospital's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying value of the asset exceeds its fair value. The Hospital did not record that any impairment exists for the years ended June 30, 2016, 2015, and 2014.

(m) ***Capitalization of Interest Costs***

Bond interest costs, net of income earned on bond funds, are capitalized during the period from the date of bond issuance until the related project is substantially complete and ready for its intended use, to the extent that the proceeds are utilized for construction.

(n) ***Functional expenses***

The Hospital provides general healthcare services to residents within its geographic location, including inpatient, outpatient, and emergency services.

Expenses related to providing these services for the fiscal years ended June 30, 2016, 2015, and 2014 were as follows:

Functional expenses	2016	2015	2014
Patient care	$ 211,187	$ 243,328	$ 262,755
Institutional support	34,476	40,879	40,522
Total	**$ 245,663**	**$ 284,207**	**$ 303,277**

(o) ***Reserves for Self-insured Liabilities***

The reserve for self-insured liabilities is comprised primarily of amounts accrued for asserted medical malpractice and workers’ compensation claims and includes estimates of the ultimate cost to resolve such claims. Medical malpractice reserves are undiscounted and include an estimate of the cost to resolve unasserted claims that the actuarial analysis indicates are probable of assertion in the future. Workers’ compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidences. The estimated workers’ compensation liability is not reported on a discounted basis.

(p) ***Pension and Post-retirement Benefits***

The funded status of the University's pension benefit is actuarially determined and recognized in the Statements of Financial Position as an asset to reflect an overfunded status, or as a liability to reflect an underfunded status.

The University's actuarially determined post-retirement benefit obligation is recognized on the Statements of Financial Position as a liability.

(q) ***Compensated Absences***

The Hospital records a liability for amounts due to employees for future absences, which are attributable to services performed in the current and prior periods.

(r) ***Recent Accounting Pronouncements***

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers: Topic 606 (ASU 2010-09)* which becomes effective for nonpublic entities effective for annual periods beginning after December 15, 2018. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Hospital's management is currently evaluating the effect the provisions of ASU 2014-09 will have on the Hospital's financial statements.

In September 2014, FASB issued ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15).* The amendments in ASU 2014-15 define when and how companies are required to disclose going concern uncertainties, which must be evaluated each period. Specifically, the ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the consolidating financial statements are issued (or available to be issued). If substantial doubt exists, certain disclosures are required; the extent of those disclosures depends on an evaluation of management's plans (if any) to mitigate the going concern uncertainty. The new standard applies prospectively to annual periods ending after December 15, 2016. Hospital management is currently evaluating the effect the provisions of ASU 2014-15 will have on the Hospital's financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The ASU requires that debt issuance costs be reported in the statements of financial position as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented as a deferred charge (i.e., an asset) on the statements of financial position. Further, the amendments require the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. The amendments are effective for fiscal years beginning after December 15, 2015. The amendments must be applied retrospectively. Hospital management does not believe the provisions of ASU 2015-03 will have a significant effect on the Hospital's financial statements.

Note 2 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 forgone for services furnished under the Hospital's charity care policy and the DC Alliance program were $2,548, $5,194 and $3,297 for fiscal years ended June 30, 2016, 2015 and 2014, respectively. Total uncompensated care charges under all of the Hospital's clinical services which includes bad debt write offs and charity care, for fiscal years ended June 30, 2016, 2015, and 2014 were $11,635, $14,870 and $11,322 respectively.

Note 3 Insurance and Risk Management

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

The self-insured medical malpractice program covers professional liability costs up to $7,500 per occurrence depending on the cause. In addition, there are two layers of excess insurance coverage. The first layer of the excess insurance coverage is up to $25,000 on a claims-made basis. This layer is purchased through a captive insurance company, Howard University Capitol Insurance Company, Ltd. ("HUCIC"), organized under the laws of the Cayman Islands. HUCIC covers prior acts retroactive to two separate policy periods dating July 1, 1996 and January 1, 1986, and is completely reinsured. The $10,000 second layer of excess liability insurance which also covers comprehensive general liability, managed-care liability, and professional liability is up to $50,000 on a claims-made basis. The second layer of excess coverage is provided by an independent excess insurance company.

Note 4 Restructuring Costs

In fiscal year 2015, while experiencing significant financial deficits, the Hospital engaged several firms to assess operations and recommend changes in the current processes and structure. Decisions about appropriate workforce size and skill requirements, changes in management structure, and functions consolidation, resulted in a restructuring charge incurred in the process of early retirement incentive program and reductions in force. The charge against earnings in the fiscal year for known and estimated employee voluntary/involuntary termination costs are pursuant to a duly authorized plan. Restructuring charges are considered one-time non-recurring operating expenses, and are listed separately on the Statement of Operations to call attention to the special nature of these charges. The costs incurred are recognized as non-operating expenses in the Statements of Operations. The Hospital incurred $0, $9,266 and $1,611 in restructuring costs for the years ended June 30, 2016, 2015 and 2014, respectively.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Note 5 Concentration of Credit Risk

Financial instruments that potentially subject the Hospital to significant concentrations of credit risk consist principally of cash, cash equivalents, and investments in financial institutions in excess of the applicable government insurance limits. Concentrations of credit risk with respect to receivables pertain mainly to the Hospital's self-pay patients. Payor mix was as follows on June 30:

Payor Mix	2016	2015	2014
Medicare	12%	17%	16%
Medicaid	47%	47%	42%
Blue Cross	3%	5%	3%
Other third-party payors	16%	13%	13%
Patients	22%	18%	26%
	100%	**100%**	**100%**

Note 6 Receivables

Accounts receivable, prior to adjustment for doubtful collections, is summarized as follows at June 30:

Receivables	2016	2015	2014
Patients	$ 66,000	$ 59,827	$ 75,659
Third-party payors	7,423	4,706	12,667
Insurance claims	7,526	7,526	8,433
Other	5,371	1,796	2,612
Totals	**$ 86,320**	**$ 73,855**	**$ 99,371**

Allowance for doubtful receivables is summarized as follows at June 30:

Allowance for Doubtful Receivables	2016	2015	2014
Patients	$ 26,649	$ 33,226	$ 38,943
Insurance claims	1,509	1,509	1,124
Totals	**$ 28,158**	**$ 34,735**	**$ 40,067**

Provision for bad debt is summarized as follows at June 30:

Provision for Bad Debt	2016	2015	2014
Patients	$ 19,504	$ 22,872	$ 20,056
Insurance claims	-	-	(127)
Totals	**$ 19,504**	**$ 22,872**	**$ 19,929**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

In evaluating the collectability of accounts receivable, the Hospital analyzes and identifies historical trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data for these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates, or discounted rates if negotiated, and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's allowance for doubtful accounts for self-pay patients was, $26,649, $38,943, and $33,226 for the periods ended June 30, 2016, 2015 and 2014. In addition, the Hospital's self-pay write-offs were $21,488 , $28,589, and $13,413 for the periods ended June 30, 2016, 2015 and 2014. The Hospital does not maintain an allowance for doubtful accounts from third-party payors, nor have there been any significant third-party payor write-offs.

Bad debt expense for insurance claims of $0, ($127), and $523, fiscal years ended June 30, 2016, 2015 and 2014 reflected in total operating expenses on the Statements of Operations excludes bad debt expense related to patients and third-party payors. Patient related bad debt, as shown in the table above, is reflected as a reduction in patient service revenue on the Statements of Operations.

Note 7 Accounts Payable and Accrued Expenses

Components of this liability account at June 30, 2016, 2015, and 2014 are as follows:

Accounts Payable and Accrued Expenses	**2016**	**2015**	**2014**
Vendor invoices	$ 22,073	$ 22,306	$ 26,237
Accrued salaries and wages	5,565	5,519	6,296
Accrued employee benefits	1,060	974	2,864
Accrued annual leave	2,578	3,004	4,409
Total	**$ 31,276**	**$ 31,803**	**$ 39,806**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Note 8 Deposits with Trustees and Self-insured Liabilities

Components of self-insured liabilities at June 30 were as follows:

	Dedicated Assets			Estimated Liability		
	2016	2015	2014	2016	2015	2014
Debt service reserve fund	$ 1,380	$ 1,380	$ 1,380	NA	NA	NA
Professional and general	15	16	5	$ 59,127	$ 55,671	$ 54,365
Workers' compensation	9	10	12	10,486	16,942	16,847
Health Insurance	324	111	398	1,315	1,854	1,692
Total	**$ 1,728**	**$ 1,517**	**$ 1,795**	**$ 70,928**	**$ 74,467**	**$ 72,904**

NA = Not applicable

(a) *Debt Service Reserve Fund*

As required by the Revenue Bonds, the Hospital maintains a debt service reserve fund in an amount equal to or greater than the Debt Service Fund Requirement of $12,634 for fiscal years ended June 30, 2016, 2015 and 2014, respectively. The portion of this fund allocated to the Hospital in fiscal years ended June 30, 2016, 2015 and 2014 is $1,380, for all three years respectively. The assets in the debt service reserve fund consist primarily of cash, fixed income and other short term securities.

(b) *Professional and General Liability*

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and certain faculty physicians and are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2015. It is the opinion of management based on the advice of actuaries and legal counsel that the estimated malpractice costs accrued at June 30, 2016, 2015, and 2014 of approximately $59,127, $55,671, and $54,365 respectively, are adequate to provide for losses resulting from probable unasserted claims and pending or threatened litigation. There is no discount reflected at June 30, 2016, 2015 and 2014.

(c) *Workers' Compensation Liability*

The University has established a revocable trust fund to partially provide for the satisfaction of its liability under applicable workers' compensation laws and for the care and security of its employees. The assets in the workers' compensation trust fund consists of U.S. Treasury Bills and obligations, as well as domestic and foreign corporate bonds. The Hospital also maintains $3,525 in letters of credit, which serve as collateral for specific insurance carriers. These letters of credit are secured by the University's multi-bank credit agreement. The University is self-insured for workers' compensation claims up to per occurrence retention of $500. The excess is covered through commercial insurance. For fiscal years ended June 30, 2016, 2015 and 2014 expenses related to workers' compensation were $1,795, $1,933 and $2,371 respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately $10,486, $16,942 and $16,847 at June 30, 2016, 2015 and 2014, respectively, and includes liabilities for claims covered under existing insurance policies. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. This liability is recorded on the accompanying Statements of Financial Position in reserves for self-insured liabilities. Estimated claims for which payments will be covered under existing insurance policies were $10,486, $9,416 and $9,016 at June 30, 2016, 2015 and 2014, respectively, net of allowances for uncollectible amounts and are reflected on the Statements of Financial Position in receivables.

(d) ***Health Insurance***

The University established a revocable self-insured trust fund for the purpose of funding group health benefits for its employees. The assets, held by the University, consist primarily of investments in money market funds. Deposits to the fund are amounts withheld from employees' salaries and wages and the Hospital's contributions based on estimates established by the claims administrator. Disbursements from the fund are made in accordance with the payment plan established with the claims administrator. The total estimated liability for asserted and unasserted probable Hospital claims at June 30, 2016, 2015, and 2014 is approximately $1,315, $1,854 and $1,692, respectively.

Note 9 Fair Value Measurements

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The fair market value of a financial instrument is defined in FASB ASC Topic 825, *Financial Instruments,* as "the amount at which the instrument could be exchanged in a current transaction between willing parties." The carrying amounts reported in the accompanying statements of financial position for cash and cash equivalents, short-term investments, accrued investment income, accounts payable and accrued expenses, line of credit, term loan, and note payable approximate fair value given the short-term nature of the financial instruments.

As also defined in FASB ASC Topic 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Hospital utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Hospital primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information.

Accordingly, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital is able to classify fair value balances based on the observability of those inputs.

The Hospital's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. Also, the time between inception and performance of the contract may affect the fair value. The determination of fair value may, therefore, affect the timing of recognition of revenues and change in net assets.

FASB ASC Topic 820 establishes a fair value hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- **Level 1 Inputs:** Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- **Level 2 Inputs:** Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

- **Level 3 Inputs:** Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the Hospital's, and other independent third parties' if and where available, assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. This classification does not imply a lack of liquidity of the investment.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

All of the Hospital’s financial assets and liabilities are subject to fair value accounting as of June 30 2016, 2015 and 2014:

Fair Value as of June 30, 2016	**Level 1**	**Level 2**	**Total**
Assets:			
Cash and Cash equivalents (1)	$ 12,444	$ -	$ 12,444
Deposits with Trustees			
Cash and Cash equivalent (1)	333	-	333
Money Market Fund (1)	-	1,395	1,395
Total Asset (non investment)	**$ 12,777**	**$ 1,395**	**$ 14,172**

Fair Value as of June 30, 2015	**Level 1**	**Level 2**	**Total**
Assets:			
Cash and Cash equivalents (1)	$ 14,648	$ -	$ 14,648
Deposits with Trustees			
Cash and Cash equivalent (1)	121	-	121
Money Market Fund (1)	-	1,397	1,397
Total Asset (non investment)	**$ 14,769**	**$ 1,397**	**$ 16,166**

Fair Value as of June 30, 2014	**Level 1**	**Level 2**	**Total**
Assets:			
Cash and Cash equivalents (1)	$ 4,270	$ -	$ 4,270
Deposits with Trustees			
Cash and Cash equivalent (1)	410	-	410
Money Market Fund (1)	-	1,385	1,385
Total Asset (non investment)	**$ 4,680**	**$ 1,385**	$ 6,065

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

(1) Cash and Cash Equivalents - The amounts reported in the accompanying balance sheets as cash and cash equivalents approximate fair value because of the short maturities of those instruments.

(2) Deposits with Trustees - These assets consist primarily of cash, short-term investments, U.S. Treasury obligations, and interest receivable. U.S. Treasury obligations are carried at cost adjusted for amortization of premiums and accretion of discounts with fair values based on quoted market prices, if available, or estimated using quoted market prices for similar securities. For other assets limited as to use, the carrying amounts reported in the balance sheets are fair value.

(3) Estimated Third-party Payor Settlements - The carrying amounts reported in the accompanying balance sheets for estimated third-party payor settlements approximate fair value.

(4) Long-term Debt - Fair values of the Hospital's revenue bonds are based on current traded value. The fair value of the remaining long-term debt is estimated using

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

discounted cash flow analysis, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

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

The carrying amounts and fair values of the Hospital's financial instruments at June 30 are as follows:

	2016		2015		2014	
	Carrying Amounts	**Fair Value**	**Carrying Amounts**	**Fair Value**	**Carrying Amounts**	**Fair Value**
Assets:						
Cash and Cash equivalents	$ 12,444	$ 12,444	$ 14,648	$ 14,648	$ 4,270	$ 4,270
Deposits with Trustees	1,728	1,728	1,517	1,517	1,795	1,795
Liabilities:						
Estimated Third-Party Payor	7,423	7,423	4,706	4,706	12,667	12,667
Bonds Payable	32,112	32,112	32,088	32,088	32,100	36,385

Note 10 Net Patient Service Revenue

The Hospital has arrangements with third-party payors that provide for payments at amounts different from the established rates. A summary of the payment arrangements with major third-party payors is as follows:

(a) *Medicare*

Payments from Medicare for inpatient acute services are made on a prospective basis. Under this program, payments are made at a predetermined specified rate for each discharge, based on a patient’s diagnosis weighted by an acuity factor. Costs related to medical education are reimbursed on a per-resident rate basis, using 1985 as a base year. The Hospital estimated a disproportionate share adjustment for servicing certain low income patients, which was $9,989, $7,329 and $9,652 for the years ended June 30, 2016, 2015, and 2014, respectively. Outpatient services are paid at prospectively determined rates per procedure under a methodology which utilizes ambulatory payment classifications. Similar to the inpatient rates, outpatient rates vary according to the procedures performed. Other outpatient services are based on fee schedules. Additional payments are made to the Hospital for the cost of cases that are in excess of the national averages. The Hospital is reimbursed for cost reimbursable items, at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

(b) ***Medicaid***

Medicaid payments are based on diagnosis related groupings at a predetermined specified rate for each discharge, subject to a weight or acuity factor based on a patient's diagnosis. The Medicaid inpatient payment also includes payments for medical education and capital on a per discharge basis. Outpatient services are reimbursed based on a fixed rate per visit basis determined by Medicaid. The Hospital estimated a disproportionate share adjustment for servicing certain low income patients, which was $27,961, $43,262 and $37,406 for the years ended June 30, 2016, 2015, and 2014, respectively.

(c) ***Blue Cross and Other***

The Hospital has also entered into payment agreements with certain commercial insurance carriers such as Blue Cross, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily or procedure rates.

Gross revenues from each major third-party payor for the fiscal years ended June 30, 2016, 2015 and 2014 is shown below, including associated contractual allowances, charity care and bad debt.

Gross Revenues	**2016**	**2015**	**2014**
Medicare	$ 67,951	$ 144,977	$ 162,938
Medicaid	138,306	282,375	301,955
Blue Cross and others	359,818	147,386	163,694
Gross Revenues	**566,075**	**574,738**	**628,587**
Third- party payor settlement revenue	46,637	58,716	49,952
Contractual allowances and discounts	(359,665)	(367,391)	(440,490)
Charity care services	(5,468)	(12,276)	(8,241)
Bad debt	(19,504)	(22,872)	(20,056)
Total Net Patient Service Revenue	**$ 228,075**	**$ 230,915**	**$ 209,752**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Note 11 Estimated Third-Party Settlements

Certain services rendered by the Hospital are reimbursed by several third-party payors at cost, based upon cost reports filed after year-end. Contractual allowances are recorded based upon preliminary estimates of reimbursable costs. Net patient service revenue recorded under cost reimbursement agreements for the current and prior years is subject to audit and retroactive adjustments by significant third-party payors for the following years:

Medicare 2015-2016
Medicaid 2011-2016

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase (decrease) to net patient service revenues of approximately, $7,961, $8,764 and $(8,879) for the years ended June 30, 2016, 2015, and 2014, respectively.

Third-party settlement revenue	**2016**	**2015**	**2014**
Medicare appeals	$ -	$ -	$ (9,472)
Medicare pass-through	9,990	8,644	10,907
Disproportionate Share Hospital	27,961	43,262	37,406
Graduate Medical Education	6,239	6,973	5,338
Other	2,447	(163)	5,773
Total third-party settlement revenue	**$ 46,637**	**$ 58,716**	**$ 49,952**

Note 12 Property, Plant and Equipment, net

Components of property, plant and equipment as of June 30 are as follows:

Property, Plant and Equipment, net	**2016**	**2015**	**2014**
Land and land improvements	$ 5,297	$ 5,297	$ 5,297
Buildings and building Improvements	153,463	153,463	153,427
Furniture and equipment	142,582	142,479	142,842
Equipment under capital leases	44,877	44,877	44,877
Software and computer hardware	41,497	41,213	39,988
Construction in progress	1,186	1,147	260
Property, plant and equipment, gross	388,902	388,476	386,691
Accumulated depreciation and Amortization	(298,533)	(284,330)	(267,045)
Property, plant and equipment, net	**$ 90,369**	**$ 104,146**	**$ 119,646**

Depreciation and amortization expense for the fiscal years ended June 30, 2016, 2015, and 2014 were $14,133, $17,247 and $17,667, respectively.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Howard's asset retirement costs and obligations are reported in property, plant and equipment and other liabilities in the Statements of Financial Position, respectively. These costs for the reporting periods ended were as follow below:

Asset Retirement Costs and Obligations	2016	2015	2014
Asset retirement costs	$ 969	$ 969	$ 969
Accumulated depreciation	841	809	774
Asset retirement obligation	2,616	2,538	2,461

Note 13 Leases

Lease Obligations

The Hospital is obligated under capital leases for the chiller, office and medical equipment that extend through 2031 in the amounts of $23,966, $29,669 and $35,810, respectively at June 30, 2016, 2015, and 2014.The assets are amortized over their estimated useful lives. Accumulated amortization related to the leased assets is $21,273, $18,502 and $14,618 at June 30, 2016, 2015 and 2014, respectively.

In March 2010, the University, on behalf of the Hospital, entered into a structured financing arrangement to build a new plant that will provide chilled water for the air conditioning system at the Hospital. The chiller lease is for 20 years and extends through 2031.

The construction was completed and the asset placed into service in May 2011. The cost of the plant will be paid over 20 years through a minimum unit price for chilled water from the plant.

Scheduled principal repayments due on the capital leases and non-cancelable operating leases for the next five years and thereafter at June 30 are as follows:

Lease Obligations	Capital Leases
2017	$ 5,249
2018	3,886
2019	2,883
2020	2,203
2021	2,215
2022 and thereafter	22,384
Obligation, gross	38,820
Amounts representing interest rates	(14,854)
Total Lease Obligations	**$ 23,966**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Sale-Lease back Transaction

In fiscal year 2014, the Hospital entered into a sale-leaseback transaction with a third party vendor for the sale of equipment totaling $1,705. The equipment was subsequently leased back from the vendor with a lease commencement date of April 1, 2014 and a base term of 60 months.

Note 14 Bonds Payable

(a) ***Bonds Payable***

The Hospital is obligated with the bond issues below at the report date. These bonds were issued by Howard, a portion of which was allocated to the Hospital. The carrying amounts of the Hospital financial bond obligations as of June 30, are as follows;

Bonds Payable	**2016**	**2015**	**2014**
District of Columbia issues:			
2010 Revenue bonds, 5.05% Serial due 2010 through 2026	$ 495	$ 495	$ 531
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2042	14,166	14,166	14,166
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2036	18,045	18,045	18,045
Total bonds payable, gross	**$ 32,706**	**$ 32,706**	**$ 32,742**
Unamortized bond premium (discount)	(594)	(618)	(642)
Total bonds payable, net	**$ 32,112**	**$ 32,088**	**$ 32,100**

(1) ***2010 Revenue Bonds***

In August 2010, Howard issued $10,400 of Series 2010 bonds. The bonds bear interest at 5.05% and are repayable from 2010 to 2025. $640 of these bonds was allocated to the Hospital. A portion of the proceeds were used to retire an expiring equipment note. The remaining proceeds will be used to fund energy related projects.

(2) ***2011 Revenue Bonds***

In April 2011, Howard issued $225,250 of tax exempt revenue bonds (Series 2011A), of which $14,166 was allocated to the Hospital, and $65,065 of taxable revenue bonds (Series 2011B), of which $18,045 was allocated to the Hospital, to refund the Series 1998 and Series 2006 Bonds and to finance new capital improvements. The interest rate on the tax exempt bonds range from 5.25% to 6.50% and the bonds mature between 2020 and 2041. The taxable bonds bear interest between 4.31% and 7.63% and the bonds mature between 2015 and 2035. The average coupon is 6.57%.

The Series 2011A Bonds maturing on or after October 1, 2021 are subject to optional redemption by the District of Columbia, at the written direction of Howard, in its sole discretion, on or after April 1, 2021 in whole or in part at any time, at a redemption price equal to the principal amount of the Series 2011A Bonds being redeemed, plus accrued interest, if any, to the redemption date.

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.

2011 Bond proceeds of $19,782 have been used to create a deposit for capitalized interest. The remaining balance of this fund is $0 at June 30, 2016.

On June 5, 2015, Moody's Investors Service placed under review a downgrade of Howard's Series 2011A and 2011B bonds to Ba2 with a negative outlook from Baa3. The downgrade to Ba2 reflects the cumulative effect on ongoing losses at both Howard University Hospital and Howard University combined with expected continued pressure on revenue and liquidity management. On July 30, 2015, Moody's Investors Service confirmed the June 5, 2015 review for downgrade of Howard's Series 2011A and 2011B bonds to Ba2 with a negative outlook from Baa3.

(3) ***Fair Value of Bonds Payable***

The estimated fair value of the Hospital's bond allocation is determined based on quoted market prices. At June 30, 2016, 2015 and 2014, the estimated fair value was approximately $32,112, $34,712 and $36,385, 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.

(4) ***Compliance with Contractual Covenants***

In May 2011, the Howard's debt covenants were amended in conjunction with the 2011 Bond issuance and Multi-bank Credit Agreement execution. In June 2014, the debt covenants were amended for the Multi-bank Credit Agreement.

Howard, as required by the terms of the Multi-bank Credit Agreement, has granted lenders a security interest in collateral in the form of cash and securities delivered to their collateral agent. Howard will pledge additional collateral when the collateral value is less than the minimum collateral amount. The collateral agent is not allowed to re-pledge or sell the collateral securities. At June 30, 2015, the carrying value of the pledged securities is $133,903 is reported in Howard's endowment investments. There were no pledged securities at fiscal years ended June 30, 2016 and 2014.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

At June 30, 2016, 2015, and 2014, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 Revenue Bonds and the Property Loan. At June 30, 2016, 2015, and 2014, Howard was compliant with the Liquidity Ratio measurement for the Multi-bank Credit Agreement. The Debt Service Coverage Ratio measurement requirement was removed for fiscal year 2015 for the Multi-bank Credit Agreement. Howard was not in compliance with the Debt Service Coverage Ratio for the Multi-bank Credit Agreement at June 30, 2014..

The 2011 Bond and Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2016.

Covenant	**Instrument**	**Measurement Dates**	**Criteria**
Debt Service Coverage Ratio	2011 Revenue Bonds	June 30 each year	1.10:1.00
Liquitidy Radio	Revolving Credit Agreement	Quarterly	0.25:1.00

(5) ***Scheduled Bond Repayments***

The scheduled principal repayments of bonds payable are as follows:

Bonds Payable Maturities	**June 30:**
2017	$ 464
2018	572
2019	628
2020 and thereafter	31,042
Obligation, gross	32,706
Amounts representing interest rates	(594)
Total Bonds Payable, net	**$ 32,112**

Note 15 Pension and Post-retirement Benefit Plans

The University has a noncontributory, defined benefit pension plan (the “Plan”) available to substantially all full-time employees. In accordance with government funding regulations, the University’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.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

The University also provides post-retirement medical benefits and life insurance to employees who, at the time they retire, meet specified eligibility and service requirements. The University 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.

During FY 2016 there was a curtailment of the Hospital's plan due to a nearly 20% decrease in active participants in FY 2015. This reduced the accumulated Benefit obligation by $2,600.

The University recognizes a plan's overfunded or underfunded status as an asset or liability, with an offsetting adjustment to unrestricted net assets. The reconciliation of the Hospital's portion of the plan's funded status to amounts recognized in the financial statements at June 30, 2016, 2015, and 2014, using a June 30 measurement date follows:

Retirement Benefits	**Pension**			**Medical And Life Insurance**			**Savings Plan**			**Total**		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Change in net obligations												
Projected benefit obligation at beginning of year	189,842	186,763	170,485	15,438	16,721	14,197	-	-	-	205,280	203,484	184,682
Service cost	-	-	-	180	207	132	-	-	-	180	207	132
Interest cost	8,082	7,742	8,015	669	699	673	-	-	-	8,751	8,441	8,688
Actuarial (gain) loss	16,885	3,569	12,770	912	(803)	2,578	-	-	-	17,797	2,766	15,348
Benefits paid	(9,238)	(8,232)	(7,207)	(3,079)	(3,859)	(2,497)	-	-	-	(12,317)	(12,091)	(9,704)
Special termination benefits	-	-	-	-	-	-	-	-	-	-	-	-
Medicare Part D subsidy	-	-	-	-	172	174	-	-	-	-	172	174
Employee contributions	-	-	-	2,286	2,301	1,464	-	-	-	2,286	2,301	1,464
Prior service amendment	-	-	-	-	-	-	-	-	-	-	-	-
Plan containment	-	-	-	(782)	-	-	-	-	-	-	-	-
Plan amendments	-	-	2,700	-	-	-	-	-	-	-	-	2,700
Projected benefit obligation at end of the period	**205,571**	189,842	186,763	**15,624**	**15,438**	**16,721**	**-**	**-**	**-**	**221,977**	**205,280**	**203,484**

Change in olan assets

Fair value of plan assets at beginning of year	152,920	156,564	135,238	-	-	-	-	-	-	152,920	156,564	135,238
Actual return on plan assets	10,612	(37)	25,418	-	-	-	-		-	10,612	(37)	25,418
Employer contribution	2,430	4,625	3,115	793	1,386	859	-	-	6,221	3,223	6,011	10,195
Employee contributions	-	-	-	2,286	2,301	1,464	-	-	-	2,286	2,301	1,464
Medicare Part D subsidy	-	-	-	-	172	174	-	-	-	-	172	174
Benefits paid	(9,238)	(8,232)	(7,207)	(3,079)	(3,859)	(2,497)	-	-	-	(12,317)	(12,091)	(9,704)
Fair value at end of year	**156,724**	**152,920**	**156,564**	**-**	**-**	**-**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Total	**(48,847)**	**(36,922)**	**(30,199)**	**(15,624)**	**(15,438)**	**(16,721)**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at June 30, 2016, 2015 and 2014:

	Pension			Medical And Life Insurance			Savings Plan			Total		
Retirement Benefits	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
Recognition in Statement of Activities:	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of transition obligation	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of prior service cost	100	100	-	(4,798)	(4,798)	(4,798)	-	-	-	(4,698)	(4,698)	(4,798)
Amortization of actuarial loss	1,947	2,023	1,923	626	802	621	-	-	-	2,573	2,825	2,544
Total Amortization	**2,047**	**2,123**	**1,923**	**(4,172)**	**(3,996)**	**(4,177)**	**-**	**-**	**-**	**(2,125)**	**(1,873)**	**(2,254)**
Service Cost	-	-	-	180	207	132	5,513	-	7,281	5,693	6,939	7,413
Interest Cost	8,082	7,742	8,015	669	699	673	-	-	-	8,751	8,441	8,688
Expected return on plan assets	(9,264)	(7,976)	(7,645)	-	-	-	-	-	-	(9,264)	(7,976)	(7,645)
Curtailment (gain) loss	-	-	-	(2,557)	-	-	-	-	-	(2,557)	-	-
Special termination benefits recognized	-	-	-	-	-	-	-	-	-	-	-	-
Recognized in operating expenses	**865**	**1,889**	**2,293**	**(5,880)**	**(3,090)**	**(3,372)**	**5,513**	**-**	**14,013**	**498**	**11,044**	**12,934**
Amortization of transition obligation	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of prior service cost	(100)	(100)	-	7,355	4,798	4,798	-	-	-	7,255	4,698	4,798
Amortization of actuarial loss	(1,947)	(2,023)	(1,923)	(626)	(802)	(621)	-	-	-	(2,573)	(2,825)	(2,544)
Total amortization	**(2,047)**	**(2,023)**	**(1,923)**	**6,729**	**3,996**	**4,177**	**-**	**-**	**-**	**4,682**	**1,873**	**2,254)**
Net actuarial (gain) loss during the year	15,536	11,583	(5,003)	161	(803)	2,578	-	-	-	19,551	10,780	(2,425)
New prior service cost a rising during period	-	-	2,700	-	-	-	-	-	-	-	-	2,700
Curtailment loss	-	-	-	-	-	-	-	-	-	-	-	-
Total recognized in oather changes in unrestricted net assets	13,489	9,460	(4,226)	6,890	3,193	6,755	-	-	-	24,233	12,653	2,529
Total recognized in Statement of Activities	14,354	11,349	(1,933)	1,010	103	3,383	5,513	12,245	14,013	24,731	23,697	15,463

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2016, 2015 and 2014:

	Pension			Medical and Life Insurance		
Retirement Benefits	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Net actuarial loss	$(81,370)	$(68,142)	$(58,582)	$ (6,663)	$ (7,159)	$ (8,764)
Prior service cost	(2,500)	(2,600)	(2,700)	10,226	17,581	22,379
Total	**$(84,230)**	**$(70,742)**	**$(61,282)**	**$ 3,563**	**$ 10,422**	**$ 13,615**

The Hospital's portion of the estimated net actuarial loss, prior service cost, and transition obligation for the pension and post-retirement plans that will be accounted for as a part of net periodic benefit cost over the next fiscal year are $2,573, $(7,255), and $0, respectively.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for the years ended June 30, 2016, 2015 and 2014 were as follows:

	Pension Benefits			Post-retirement Benefits		
Actuarial Assumptions	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Discount rate	3.88%	4.36%	4.25%	3.96%	4.45%	4.29%
Expected return on plan assets	7.00%	7.00%	7.00%	-	-	-
Rate of compensation increase	-	-	-	3.50%	3.50%	3.50%

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

	Pension Benefits			Post-retirement Benefits		
Actuarial Assumptions	**2016**	**2015**	**2014**	**2016**	**2015**	**2014**
Discount rate	4.36%	4.25%	4.82%	4.45%	4.29%	4.89%
Expected return on plan assets	7.00%	7.00%	7.00%	-	-	-
Rate of compensation increase						
To age 35	-	-	-	3.5%	3.50%	3.50%
Thereafter	-	-	-	3.5%	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.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Pension plan investments as of June 30, 2016 were as follows:

Pension Plan Investments as of June 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments				
Money Market Instrument (1)	-	2,050	-	2,050
Commingled Funds (3)				
Emerging Market Equity (3)	-	3,088	-	3,088
International Equity Developed (3)	-	23,057	-	23,057
Common Stock (3)	-	6,067	-	6,067
Commodity Inflation Hedging (8)	-	3,275	-	3,275
Common Stock (3)	7,889	-	-	7,889
Fixed Income (2)				
Mortgage Backed Securities(2)	-	3,065	-	3,065
Corporate Bonds	-	10,986	-	10,986
Government Bond	23,922	-	-	23,922
Hedge Funds (4)				
Equity Long/short	-	1,618	-	1,618
Multi-Global opportunities	-	2,100	-	2,100
Multi-strategy	-	-	17	17
Mutual Funds Investment				
Domestic common stock (3)	9,422	-	-	9,422
International Equity (3)	-	-	-	-
Domestic Fixed Income (2)	35,968	-	-	35,968
Emerging Market Equity (3)	4,531	-	-	4,531
Private Equity and Venture Capital (4)	-	-	20,973	20,973
Real Estate (4)	-	-	3,160	3,160
Total pension plans investments	81,732	55,306	24,150	159,689
Liabilities Financial derivatives – options contracts	-	(90)	-	(90)
Operating assets not subject to fair value reporting	6,286	-	-	6,286
Operating liabilities not subject to fair value Reporting	(10,660)	-	-	(10,660)
Total	**77,358**	**55,216**	**24,150**	**156,724**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Pension plan investments as of June 30, 2015 were as follows:

Pension Plan Investments as of June 30, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments				
Money Market Instrument (1)	$ 111	$ 2,981	$ -	$ 3,092
Commingled Funds (3)				
Emerging Market Equity (3)	-	1,310	-	1,310
International Equity Developed (3)	-	24,251	-	24,251
Common Stock (3)	-	6,258	-	6,258
Commodity Inflation Hedging (8)	-	3,766	-	3,766
Common Stock (3)	8,777	-	-	8,777
Fixed Income (2)				
Mortgage Backed Securities(2)	-	1,969	-	1,969
Corporate Bonds	-	619	-	619
Government Bond	18,388	-	-	18,388
Hedge Funds (4)				
Distressed Debt	-	786	-	786
Equity Long/short	-	1,605	-	1,605
Event driven	-	755	703	1,458
Multi-Global opportunities	-	706	-	706
Multi-strategy	-	-	732	732
Mutual Funds Investment				
Domestic common stock (3)	9,464	-	-	9,464
Domestic Fixed Income (2)	41,305	-	-	41,305
Emerging Market Equity (3)	5,155	-	-	5,155
Private Equity and Venture Capital (4)	-	-	22,806	22,806
Real Estate (4)	-	-	3,325	3,325
Total pension plans investments	83,200	45,006	27,566	155,772
Liabilities				
Financial derivatives – options contracts	-	(18)	-	(18)
Operating assets not subject to fair value reporting	3,402	-	-	3,402
Operating liabilities not subject to fair value Reporting	(6,236)	-	-	(6,236)
Total	**$ 80,366**	**$ 44,988**	**$ 27,566**	**$152,920**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Pension plan investments as of June 30, 2014 were as follows:

Pension Plan Investments as of June 30, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments				
Money Market Instrument (1)	$ -	$ 7,745	$ -	$ 7,745
Commingled Funds (3)				
Emerging Market Equity (3)	-	1,525	-	1,525
International Equity Developed	-	24,315	-	24,315
Common Stock (3)	-	6,065	-	6,065
Commodity Inflation Hedging (8)	-	4,971	-	4,971
Common Stock (3)	11,394	-	-	11,394
Fixed Income (2)				
Mortgage Backed Securities(2)	-	1,972	-	1,972
Corporate Bonds	-	645	-	645
Government Bond	18,526	-	-	18,526
Hedge Funds (4)				
Distressed Debt	-	850	-	850
Equity Long/short	-	1,493	-	1,493
Event driven	-	838	862	1,700
Multi-Global opportunities	-	1,156	-	1,156
Multi-strategy	-	2,080	731	2,811
Mutual Funds Investment				
Domestic common stock (3)	13,038	-	-	13,038
Domestic Fixed Income (2)	29,051	-	-	29,051
Emerging Market Equity (3)	2,039	-	-	2,039
Private Equity and Venture Capital (4)	-	-	25,754	25,754
Real Estate (4)	-	-	3,731	3,731
Total pension plans investments	74,048	53,655	31,078	158,781
Liabilities				
Financial derivatives – options contracts	-	(2)	-	(2)
Operating assets not subject to fair value reporting	1,291	-	-	1,291
Operating liabilities not subject to fair value reporting	(3,508)	-	-	(3,508)
Total	**$ 71,831**	**$ 53,653**	**$ 31,078**	**$156,562**

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 U.S. treasury securities, US agency bonds, certificates of deposit and corporate bonds. Funds that are quoted daily in active markets are classified as Level 1. Funds that are not quoted daily with prices based on amortized cost are classified as Level 2.

(2) For investments in government securities and corporate bonds, fair value is based first upon quoted market prices for those securities that can be classified as Level 1. For securities where an active market is not available, fair value is

determined with reference to similar securities using market prices and broker quotes for similar instruments and is classified as Level 2.

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.

(3) Alternative investments include Howard's limited partnership interests, hedge funds, private equity and real estate funds. Trading in this class of funds is infrequent and, as a result, market values are not readily determinable. The investments in privately held funds are valued by the investment manager based on valuation techniques that take into account each fund's underlying assets and include valuation methods such as market, cost and income approaches. In accordance with an accounting standard update governing the classification of certain investments which provide the option of NAV redemption value as Level 2, Howard has classified investments in Hedge Funds as Level 2. These investments can be redeemed on a quarterly basis with a 30 to 90 days redemption notice period. Limited partnerships including private equity and real estate funds and other non-redeemable funds are categorized as Level 3. These investments cannot be redeemed or withdrawn prior to termination of the partnership. Instead, the distributions are received through liquidation of the underlying assets of the fund. No active market exists for these funds and their valuation is based on unobservable and/or significantly adjusted inputs using the best available information provided by the partnership, including management assumptions. Due diligence procedures performed by management indicate that the values reported are reasonable. These investments are classified as Level 3.

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

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

The following table presents changes in amounts included in the Statements of Financial Position for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2016.

Changes in Level 3 Security Value year ended June 30, 2016	Equity – Private and Venture Capital	Hedge Fund	Real Estate	Total
Balance July 1, 2015	$ 22,806	$ 1,435	$ 3,325	$ 27,566
Gain and Loss (Realized and Unrealized)	1,331	(3)	(738)	590
Purchases	1,330	-	1,698	3,028
Transfer out and Sales	(4,494)	(1,415)	(1,125)	(7,034)
Balance June 30, 2016	**$ 20,973**	**$ 17**	**$ 3,160**	**$ 24,150**

The following table presents changes in amounts included in the Statements of Financial Position for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2015.

Changes in Level 3 Security Value year ended June 30, 2015	Equity – Private and Venture Capital	Hedge Fund	Real Estate	Total
Balance July 1, 2014	$ 25,754	$ 1,593	$ 3,731	$ 31,078
Gain and Loss (Realized and Unrealized)	1,572	(158)	516	1,930
Purchases	1,980	-	172	2,152
Transfer out and Sales	(6,500)	-	(1,094)	(7,594)
Balance June 30, 2015	**$ 22,806**	**$ 1,435**	**$ 3,325**	**$ 27,566**

The following table presents changes in amounts included in the Statements of Financial Position for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2014.

Changes in Level 3 Security Value year ended June 30, 2014	Equity – Private and Venture Capital	Hedge Fund	Real Estate	Total
Balance July 1, 2013	$ 25,844	$ 1,443	$ 2,418	$ 29,705
Gain and Loss (Realized and Unrealized)	5,568	150	550	6,268
Purchases	2,246	-	993	3,239
Transfer out and Sales	(7,904)	-	(230)	(8,134)
Balance June 30, 2014	**$ 25,754**	**$ 1,593**	**$ 3,731**	**$ 31,078**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Pension Plan Investment Commitments – The University's investment commitments as of June 30, 2016, 2015 and 2014, are summarized below. Additionally, some of these investments do not have readily ascertainable market values and may be subject to withdrawal restrictions and are less liquid than the University's other investments.

Investments as of June 30, 2016	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 3,699	$ -	Monthly/Annually	45-90 days
Real Estate Funds	3,129	180	-	2-5 years
Common/Collective Trusts	35,148	-	Monthly	-
Limited Partnerships	20,901	4,781	-	≤ 10 years

Investments as of June 30, 2015	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 5,286	$ -	Monthly/Annually	45-90 days
Real Estate Funds	3,325	457	-	2-10 years
Common/Collective Trusts	35,585	-	Monthly	-
Limited Partnerships	22,806	4,331	-	≤ 10 years

Investments as of June 30, 2014	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 8,010	$ -	Monthly/Annually	45-90 days
Real Estate Funds	3,732	469	-	2-10 years
Common/Collective Trusts	36,875	-	Monthly	-
Limited Partnerships	25,754	6,241	-	≤ 10 years

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

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

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

Pension Plan Asset Allocation	2016	2015	2014	Allowable Range
Mid-Large Cap U.S. Equity	8.8%	9.7%	11.5%	10-20%
Small Cap U.S. Equity	3.0%	3.3%	3.9%	0-10%
International Equity - Developed	14.7%	16.0%	15.8%	10-20%
Private Equity/Venture Capital	15.4%	16.3%	15.7%	5-15%
Hedge Funds	2.4%	3.5%	5.2%	5-15%
Inflation Hedging	5.4%	5.9%	9.7%	10-15%
Emerging Markets Equity	4.9%	4.3%	2.3%	5-15%
U.S. Core Bonds	44.7%	39.3%	31.7%	25-35%
Cash and Cash Equivalents	0.7%	1.7%	4.2%	0-5%
Total	**100%**	**100%**	**100%**	

The trend rate for growth in health care costs, used in the calculation for fiscal year 2016 was 7.31%. This growth rate was assumed to decrease gradually to 4.5% in 2030 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.

A one percentage increase/decrease in assumed annual health care cost trend rate would change the service and interest components of retiree medical expense by approximately an increase of $20,000 or decrease of $16,000, and the post retirement obligation by approximately an increase of $169,000 or decrease of $134,000.

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:				
2017	$ 10,333	$ 777	$ -	$ 777
2018	10,729	768	-	768
2019	11,182	775	-	775
2020	11,524	778	-	778
2021	11,690	784	-	784
Years 2022-2026	60,866	3,830	-	3,830
Total	**$ 116,324**	**$ 7,712**	**$ -**	**$ 7,712**

Savings Plan – The University supplements its pension plan by offering employees a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible employees received a contribution of 6% (5% effective Jan 2016) 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 financial administrators: Teachers

Insurance and Annuity Association/College Retirement Equities Fund, American International Group – Variable Annuity Life Insurance Company, and Lincoln Financial. These administered plans provide additional retirement benefits including the purchase of annuity contracts for eligible employees. Total costs recognized in the Statements of Operations and Changes in Net Assets were $5,513, $6,732 and $6,221 for fiscal years ended June 30, 2016, 2015 and 2014, respectively. Effective July 1, 2010, the Savings Plan was modified such that the University 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.

Note 16 Commitments and Contingencies

(a) *Litigation and Other Claims*

During the ordinary course of business**,** the Hospital is a party to various litigation and other claims 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 the opinion of management and the Hospital's general counsel, an appropriate monetary provision has been made to account for probable losses and the ultimate resolution of these matters.

(b) *Collective Bargaining Agreements*

Howard has several collective bargaining agreements currently in effect with unions representing approximately 1,100 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

Note 17 Related Party Transactions

During the normal course of business, the University and the Hospital maintain a reciprocal relationship with regards to payment for certain expenditures. The expenditures include amounts pertaining to medical malpractice, facilities, administrative services, physician salaries, employee tuition remission, health benefits, utilities and other miscellaneous expenses. The Hospital records these transactions through a Due to the Howard University payable account and a Due from Howard University receivable account.

In January 2010, the University's Board of Trustees approved the restructuring of the Due to the Howard University balance. As part of the restructuring, effective June 30, 2009, the Hospital recorded $45,000 of the payable as an interdivisional transfer within its unrestricted net assets, which represents the amount attributable to pension contributions and faculty salaries from current and prior periods.

The restructuring required the remaining amount of the balance of $13,089, which represents various operating costs paid by the University on the Hospital's behalf, to be reflected as a loan due to the University.

Beginning in fiscal year 2011, the residual loan amount of $8,089 is to be repaid annually over a ten year period with interest of 3% per year. The balance may be paid in advance without penalty. In July 2010 and 2011, the Hospital made a payment of $805 on the outstanding loan.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Interdivisional transactions reflected in the Statements of Operations and Changes in Net Assets (Deficit) and in the Statements of Cash Flows for the years ended June 30, 2016, 2015, and 2014 are shown in the table below:

Interdivisional Transactions – Operating and Capital	**2016**	**2015**	**2014**
Operating charges allocated from the Hospital to the University:			
Medical malpractice	$ 1,140	$ 4,510	$ 5,117
Facilities	644	831	855
Administrative services	-	298	527
Physicians salaries	(15,314)	(17,315)	(13,908)
Total charges allocated from the Hospital to the University	**(13,530)**	**(11,676)**	**(7,409)**
Operating charges allocated to the Hospital from the University:			
Employee tuition remission	(1,675)	(2,379)	(2,069)
Utilities	(3,731)	(4,670)	(5,058)
Other	19,574	(2,050)	(12,095)
Total charges allocated to the Hospital from the University	**14,168**	**(9,099)**	**(19,222)**
Net charges allocated from the Hospital/(allocated to the Hospital):	**639**	**(20,775)**	**(26,631)**
Federal appropriation allocated to the Hospital from the University	27,046	26,021	26,700
Total operating support provided from the University to the Hospital	**27,685**	**5,246**	**69**
Financing support provided from the University to the Hospital:			
Acquisition of equipment under capital leases	-	-	4,420
Capital lease payments made by the Hospital	(7,121)	(6,142)	(5,553)
Total financing support provided to the Hospital	**(7,121)**	**(6,142)**	**(1,133)**
Total support provided to the Hospital	**$ 20,564**	**$ (896)**	**$ (1,064)**

Interdivisional balances on the Statements of Financial Position as of June 30, 2016, 2015 and 2014 were as follows:

Interdivisional Balances – Statements of Financial Position	**2016**	**2015**	**2014**
Current assets	$ -	$ -	$ -
Current liabilities	(805)	(805)	(805)
Long term liabilities	(37,400)	(37,992)	(17,217)
Total interdivisional balances	**$ (38,205)**	**$ (38,797)**	**$ (18,022)**

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

Changes in interdivisional balances for the years ended June 30, 2016, 2015, and 2014 were as follows:

Interdivisional Transactions – Statements of Financial Position	**2016**	**2015**	**2014**
Short term financing	$ -	$ -	$ -
Bond transactions, net	131	(2,318)	(2,350)
Long term financing	1,544	9,134	(5,292)
Net charges recovered from the University/(allocated to the Hospital)	2,005	(27,591)	(18,989)
Net activity during the year	592	(20,775)	(26,631)
Balance at beginning of the year	(38,797)	(18,022)	8,609
Balance at end of the year	**$ (38,205)**	**$ (38,797)**	**$ (18,022)**

The table below reflects Hospital assets and liabilities that are allocated from the University:

Interdivisional Balances – Asset/Liability Allocations	**2016**	**2015**	**2014**
Assets:			
Deposits with trustees	$ 1,728	$ 1,518	$ 1,795
Pension assets	535,201	152,920	156,564
Total assets	**536,929**	**154,438**	**158,359**
Liabilities:			
Reserves for self-insured liabilities	70,928	74,467	72,904
Capital lease obligations	23,966	29,669	35,810
Bonds payable	32,112	32,088	32,100
Total liabilities	**$ 127,006**	**$ 136,224**	**$ 140,814**

Note 18 Howard University Dialysis Center

The University, on behalf of the Hospital, and American Renal Associates, LLC (“ARA”) entered into a joint venture to form and operate the Howard University Dialysis Center LLC (“LLC”). The member interests of the LLC are 51% for ARA and 49% for Howard. In conjunction with the creation of the joint venture, the LLC was capitalized with $4,590 from ARA and the LLC purchased from Howard: 1) the assets and contracts associated with the Hospital outpatient dialysis services which had a book value of $40; 2) entered into an agreement for Howard not to compete; and 3) obtained a guarantee from Howard to jointly back the LLC’s debt arrangements. In May 2012, the LLC entered into a term loan to finance construction for $1,699 and a working capital revolving loan for $300 with ARA. The value of the initial investment in the LLC at the date of the transaction is reflected at the fair value of the LLC at the creation of the joint venture. A gain of $9,056 has been recognized on this transaction reflecting cash received of $4,590 and a 49% equity interest in the LLC of $4,466. The Hospital will account for its interest in the LLC using the equity method which requires the Hospital to record a proportional share of the LLC’s net income (loss) as increase (decrease) to the initial investment received (after adjusting for the LLC’s fair value accounting). On March 1, 2012, the LLC commenced a lease with Howard for the current space, employees, and Medical Director associated with its Hospital outpatient dialysis services which will result in monthly rental income for the Hospital in addition to its proportionate share of earnings (losses) of the LLC.

For Fiscal Years ended June 30, 2016, 2015 and 2014 (amounts in thousands)

As of June 30, 2016, 2015 and 2014 the Statement of Financial Position for the LLC is as follows:

Howard University Dialysis Center, LLC **Statement of Financial Position** *As of June 30,*	**2016**	**2015**	**2014**
Total Assets	$ 12,200	$ 12,096	$ 12,069
Total Liabilities	$ 795	$ 590	$ 1,177
Equity:			
Partner	6,911	7,837	9,986
Retained Earnings	4,493	3,669	1,906
Total Equity	$ 11,404	$ 11,506	$ 11,892
ARA Interest	$ 5,816	$ 5,868	$ 6,064
Howard Interest	$ 5,588	$ 5,638	$ 5,828

Note 19 Subsequent Events

The Hospital performed an evaluation of subsequent events through December 21, 2016, which is the date of the financial statements were issued, noting no additional events that affect the financial statements as of June 30, 2016.