The Howard University Hospital

(an unincorporated operating segment of The Howard University)
Financial Statements
June 30, 2014, 2013 and 2012

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Independent Auditor's Report

To the 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 statement of financial position as of June 30, 2014 and 2013, 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 controls 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2012 financial statements of The Howard University Hospital were audited by other auditors, whose report dated December 13, 2012, expressed an unmodified opinion on those statements.

BDO USA, LLP

January 28, 2015

Statements of Financial Position **As of June 30, 2014, 2013, and 2012** *(in thousands)*	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Assets:			
Current assets			
Cash and cash equivalents	$ 4,270	$ 11,519	$ 20,139
Deposits with trustees	415	392	7,171
Patient service receivable, net	36,716	52,220	43,791
Inventories and prepaid	6,820	7,222	6,323
Other receivables	2,612	3,029	6,806
Due from Howard University	--	15,474	31,004
Total current assets	**50,833**	**89,856**	**115,234**
Non-current assets			
Deposits with trustees	1,380	1,380	1,380
Third Party & Insurance Recoveries, net	19,977	27,586	16,209
Property, plant and equipment, net	119,646	128,203	122,336
Other non-current assets, net	6,005	5,487	5,127
Total Assets	**197,841**	**252,512**	**260,286**
Liabilities:			
Current liabilities			
Accounts payable and accrued expenses	39,806	38,954	36,159
Accrued postretirement benefits	879	859	3,043
Reserve for self-insured liabilities	3,822	5,238	4,452
Bonds payable	16	16	16
Due to Howard University	805	805	805
Other liabilities	851	975	705
Total current liabilities	**46,179**	**46,847**	**45,180**
Non-current liabilities			
Accrued postretirement benefits	15,842	13,338	53,319
Underfunded defined benefit pension plan	30,199	35,247	46,424
Reserve for self-insured liabilities	69,082	69,982	59,082
Other liabilities	2,461	2,387	2,315
Capital lease obligations	35,810	36,944	30,566
Due to Howard University	17,217	6,060	6,060
Bonds payable	32,084	32,093	32,101
Total Liabilities	**248,874**	**242,898**	**275,047**
Net Assets (deficit):			
Unrestricted	(96,033)	(35,386)	(59,761)
Inter-divisional transfer	45,000	45,000	45,000
Total net assets (deficit)	**(51,033)**	**9,614**	**(14,761)**
Total liabilities and net assets (deficit)	**$ 197,841**	**$ 252,512**	**$ 260,286**

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, 2014, 2013, and 2012** *(in thousands)*	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Patient service revenue, net of contractual allowances, charity care and discounts	$ 229,808	$ 266,190	$ 286,391
Less: Bad debt expense	20,056	21,742	20,677
Total patient service revenue, net	209,752	244,448	265,714
Federal appropriation	26,700	28,479	28,833
Other income	8,102	8,675	20,171
Total operating revenues	**244,554**	**281,602**	**314,718**
Salaries and wages	148,112	142,307	141,994
Employee benefits other than retirement plans	30,406	32,421	29,223
Retirement plans including amortization of actuarial losses previously recognized as non-operating items (-$2,254, $2,545 and $2,993)	6,202	9,821	12,551
Utilities and telecommunications	9,274	7,530	7,604
Medical and office supplies	30,570	33,824	34,252
Repairs and maintenance	8,466	10,075	7,637
Food service costs	3,585	3,406	2,862
Insurance and risk management	11,950	14,296	8,037
Professional and administrative services	32,162	29,215	37,322
Provision for bad debts	(127)	523	(610)
Interest expense	5,010	4,942	4,700
Depreciation	17,667	16,460	14,284
Total operating expenses	**303,277**	**304,820**	**299,856**
Operating revenues over operating expenses	**(58,723)**	**(23,218)**	**14,862**
Restructuring costs (see note 4)	(1,611)	(300)	(584)
Realized investment income (loss)	540	476	398
Gain on sale of land	1,676	--	--
Excess of revenues over (under) expenses	**(58,118)**	**(23,042)**	**14,676**
Change in funded status of defined benefit pension plan	4,226	7,239	(33,249)
Change in obligation for post retirement benefit plan	(6,755)	40,178	738
Net unrealized gain on investment	--	--	--
Change in net assets (deficit)	**$ (60,647)**	**$ 24,375**	**$ (17,835)**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows **For Fiscal Years Ended June 30, 2014, 2013, and 2012** *(in thousands)*	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Cash flows from operating activities			
Change in net assets (deficit)	$ (60,647)	$ 24,375	$ (17,835)
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:			
Non-operating activities	2,461	(47,230)	32,697
Non-cash operating items:			
Depreciation	17,667	16,460	14,284
Retirement plan amortization	(2,254)	2,545	2,993
Non-operating gains from HUDLLC	(537)	(360)	(9,102)
Changes in net assets adjusted for non-cash and non-operating items	**(43,310)**	**(4,210)**	**23,037**
Change in patient service receivables	23,114	(19,806)	(2,589)
Change in inventory, prepaid expenses and other assets	839	2,877	(6,177)
Change in accounts payable and accrued expenses	(3,531)	(5,962)	(4,008)
Change in reserve for self-insured liabilities	(2,316)	11,686	(501)
Change in other liabilities	(50)	341	516
Net cash and cash equivalents provided by (used in) operating activities	**(25,254)**	**(15,074)**	**10,278**
Cash flows from investing activities			
Proceeds from sales of investments	1,652	6,882	28,295
Purchase of investments			(24,364)
Purchase from sale of property, plant and equipment	--	--	7,115
Purchases and renovations of property, plant and equipment	(4,692)	(11,964)	(9,753)
Net cash and cash equivalents (used in) provided by investing activities	**(3,040)**	**(5,082)**	**1,293**
Cash flows from financing activities			
Payment on bonds payable	(33)	(8)	(44)
Capital leases (payments) receipts, net	(5,553)	(3,986)	(2,502)
Change in due to (from) Howard University	26,631	4,846	15,572
Short-term advance to Howard University		10,684	(23,000)
Long-term debt proceeds received from (paid to) Howard University	--	--	(582)
Net cash and cash equivalents provided by (used in) financing activities	**21,045**	**11,536**	**(10,556)**
Net (decrease) increase in cash and cash equivalents	**(7,249)**	**(8,620)**	**1,015**
Cash and cash equivalents at beginning of year	11,519	20,139	19,124
Cash and cash equivalents at end of year	**$ 4,270**	**$ 11,519**	**$ 20,139**
Supplemental cash flow information:			
Net cash paid for interest	5,010	4,941	4,244
Supplemental non-cash investing information:			
Acquisition of equipment under capital leases	4,420	10,363	3,138
Acquired equipment accruals	--	--	503

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.

Financial Condition

The Hospital has incurred significant operating losses over the past two years. Management engaged the California based Paladin Healthcare Capital to provide management services to oversee all the hospital operations. Their services include reengineering and transforming processes to enhance operational efficiency. See Note 19 for further discussion of subsequent events. Howard University has committed to funding the Hospital as required to meet obligations and continue to operate through January 31, 2016.

(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 of Columbia (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, 2014, 2013 and 2012.

(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, 2014, 2013, and 2012, the Hospital did not have any temporarily restricted or permanently restricted net assets.

(f) ***Performance Indicator (Excess of Revenues Over (Under) Expenses)***

The Statements of Operations and Changes in Net Assets (Deficit) include unrestricted revenue over (under) expenses. Changes in unrestricted net assets (deficit) which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include unrealized gains (losses) 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, 2014, 2013, and 2012 the Hospital received 11%, 10%, and 10% of its revenue support from the Federal appropriation, respectively.

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

Short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments purchased with funds on deposit with bond trustees, or with funds held in trusts, 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 are 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.

Management periodically reviews the portfolio of assets limited as to use and the investment portfolio for declines in the value of their marketable securities. Unrealized losses deemed to be permanently impaired are recorded as impairment losses and included in Excess of Revenues Over (Under) Expenses 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, 2014, 2013 and 2012.

(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, 2014, 2013 and 2012 was $257, $250, and $628, 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).

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

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

(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, 2014, 2013, and 2012.

(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, 2014, 2013, and 2012 were as follows:

Functional expenses	**2014**	**2013**	**2012**
Patient care	$ 262,755	$ 263,553	$ 260,535
Institutional support	40,522	41,267	39,321
Total	**$ 303,277**	**$ 304,820**	**$ 299,856**

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

The reserve for self-insured liabilities is comprised primarily of amounts accrued for asserted (1) medical malpractice and (2) 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 includes 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.

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 of charges forgone for services furnished under the Hospital's charity care policy and the DC Alliance program were $8,241, $35,986, and $52,800 for fiscal years ended June 30, 2014, 2013 and 2012, respectively. Total uncompensated care charges under all of Howard's clinical services which includes bad debt write offs as well as charity care, for fiscal years ended June 30, 2014, 2013 and 2012 were $28,297, $57,263, and $73,476, 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 with assets 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 $35,000 on a claims-made basis. This layer is purchased through a captive insurance company, Howard University Capitol Insurance Company, Ltd. ("HUCIC"), organized under the laws of the Cayman Islands. HUCIC covers prior acts retroactive to two separate policy periods dating July 1, 1996 and January 1, 1986, and is completely reinsured. The second layer of excess liability insurance which also covers 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.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Note 4 Restructuring Costs

In fiscal year 2014, the Hospital engaged a consulting firm to assess operations and recommend changes in the current operational processes and structure. The costs incurred for the year ended June 30, 2014 was $1,611 and was recognized as a non-operating expense in the Statements of Operations. In fiscal year 2013 and 2012 the Hospital incurred $300 and $583, respectively, in restructuring costs.

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, 2014, 2013 and 2012:

Payor Mix	2014	2013	2012
Medicare	16%	14%	11%
Medicaid	42%	53%	50%
Blue Cross	3%	4%	5%
Other third-party payors	13%	14%	17%
Patients	26%	15%	17%
	100%	**100%**	**100%**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Note 6 Patient Service Receivables

Patient service accounts receivable, prior to adjustment for doubtful collections, is summarized as follows at June 30, 2014, 2013, and 2012:

Patient Service Receivables	**2014**	**2013**	**2012**
Patients	$ 75,659	$ 84,520	$ 75,775
Third-party payors	12,667	19,024	7,237
Insurance claims	8,433	9,686	10,096
Other	2,612	4,131	7,356
Totals	**$ 99,371**	**$ 117,361**	**$ 100,464**

Allowance for doubtful receivables is summarized as follows at June 30, 2014, 2013, and 2012:

Allowance for Doubtful Receivables	**2014**	**2013**	**2012**
Patients	$ 38,943	$ 32,300	$ 31,984
Third-party payors	--	--	--
Insurance claims	1,124	1,124	1,124
Other	--	1,102	579
Totals	**$ 40,067**	**$ 34,526**	**$ 33,687**

Provision for bad debt is summarized as follows at June 30, 2014, 2013, and 2012:

Provision for Bad Debt	**2014**	**2013**	**2012**
Patients	$ 20,056	$ 21,742	$ 20,677
Third-party payors	--	--	--
Insurance claims	(127)	523	(610)
Totals	**$ 19,929**	**$ 22,265**	**$ 20,067**

Bad debt expense for insurance claims of ($127), $523 and ($610), for fiscal years ended June 30, 2014, 2013 and 2012 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 revenues on the Statements of Operations.

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 patient service 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 patient service 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.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

The Hospital's allowance for doubtful accounts for self-pay patients was $38,943, $32,300, and $31,984 for the periods ended June 30, 2014, 2013 and 2012. In addition, the Hospital's self-pay write-offs were $13,413, $21,426, and $17,771, for the periods ended June 30, 2014, 2013 and 2012. 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.

Note 7 Accounts Payable and Accrued Expenses

Components of this liability account at June 30, 2014, 2013, and 2012 as follows:

Accounts Payable and Accrued Expenses	**2014**	**2013**	**2012**
Vendor invoices	$ 26,237	$ 24,308	$ 23,122
Accrued salaries and wages	6,296	5,972	6,181
Accrued employee benefits	2,864	4,214	1,880
Accrued annual leave	4,409	4,460	4,976
Total	**$ 39,806**	**$ 38,954**	**$ 36,159**

Note 8 Deposits with Trustees and Self-insured Liabilities

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

	Dedicated Assets			**Estimated Liability**		
	2014	**2013**	**2012**	**2014**	**2013**	**2012**
Debt service reserve fund	$ 1,380	$ 1,380	$ 1,380	NA	NA	NA
Professional and general	5	239	6,520	$ 54,365	$ 55,204	$ 42,863
Workers' compensation	12	14	16	16,847	17,657	18,720
Health Insurance	398	139	635	1,692	2,359	1,951
Total	**$ 1,795**	**$ 1,772**	**$ 8,551**	**$ 72,904**	**$ 75,220**	**$ 63,534**

NA = Not applicable

(a) *Debt Service Reserve Fund*

As required by the Revenue Bonds, Howard 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, 2014, 2013 and 2012, respectively. The portion of this fund allocated to the Hospital in fiscal years ended June 30, 2014, 2013 and 2012 is \$1,380, \$1,380 and \$1,380, 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, 2013. It is the opinion of management based on the advice of actuaries and legal counsel that estimated malpractice costs accrued at June 30, 2014, 2013, and 2012 of approximately \$54,365, \$55,204 and \$42,863, 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, 2014, 2013 and 2012.

(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, 2014, 2013 and 2012 expenses related to workers' compensation were \$2,371, \$2,642, and \$1,892, respectively and are reflected in employee benefits.

The total liability for future workers' compensation liability claims was approximately \$16,847, \$17,657, and \$18,720 at June 30, 2014, 2013 and 2012, 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 \$9,016, \$8,573, and \$8,972 at June 30, 2014, 2013 and 2012, 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, 2014, 2013, and 2012 is approximately $1,692, $2,359 and $1,951, respectively.

Note 9 Fair Value Measurements

Effective July 1, 2008, the Hospital adopted the applicable accounting standards for fair value measurements, defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date.

These accounting standards establish three broad levels of assurance 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.

All of the Hospital's financial assets and liabilities are subject to fair value accounting as of June 30, 2014, 2013 and 2012.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

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
Fixed Income-Asset Backed Securities (3)	--	--	--
Fixed Income-Corporate Bonds (4)	--	--	--
Total Asset (non-investment)	**$ 4,680**	**$ 1,385**	**$ 6,065**

Fair Value as of June 30, 2013	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 11,519	$--	$ 11,519
Deposits with Trustees			
Cash and Cash equivalent (1)	153		153
Money Market Fund (1)	--	1,619	1,619
Fixed Income-Asset Backed Securities (3)	--	--	--
Fixed Income-Corporate Bonds (4)	--	--	--
Total Asset (non-investment)	**$ 11,672**	**$ 1,619**	**$ 13,291**

Fair Value as of June 30, 2012	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 20,139	$ --	$20,139
Deposits with Trustees			
Cash and Cash equivalent (1)	635	--	635
Money Market Fund (1)	--	3,884	3,884
Fixed Income-Asset Backed Securities (3)	--	1,398	1,398
Fixed Income-Corporate Bonds (4)	--	2,634	2,634
Total Asset (non-investment)	**$ 20,774**	**$ 7,916**	**$ 28,690**

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

(1) Cash equivalents including money market accounts, U.S. treasury securities with original maturities of three months or less are quoted daily in active markets. These investments are classified as Level 1. Cash equivalents in Deposits with Trustees, including workers' compensation, professional and general liability and bond debt service deposits are comprised primarily of U.S. treasury securities. Money Market Funds are classified as Level 2 because they are valued at amortized cost and not quoted market price. The underlying securities of money market funds are corporate bonds.

(2) Common stocks are largely valued based on the last sale price of identical securities traded on a primary exchange. These investments are classified as Level 1.

(3) For fixed income 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 or financial modeling using observable market inputs and classified as Level 2.

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.

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 $9,652, $10,100 and $10,985 for the years ended June 30, 2014, 2013, and 2012, 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.

(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

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Hospital estimated a disproportionate share adjustment for servicing certain low income patients, which was $37,406, $34,656 and $29,513 for the years ended June 30, 2014, 2013, and 2012, 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, 2014, 2013 and 2012 is shown below, including associated contractual allowances, charity care and bad debt.

Gross Revenues	**2014**	**2013**	**2012**
Medicare	$ 162,938	$ 150,431	$ 157,992
Medicaid	301,955	291,797	283,273
Blue Cross and others	163,694	164,279	181,044
Gross Revenues	**628,587**	**606,507**	**622,309**
Third- party payor settlement revenue	49,952	58,859	43,315
Contractual allowances and discounts	(440,490)	(363,189)	(326,433)
Charity care services	(8,241)	(35,986)	(52,800)
Bad debt	(20,056)	(21,742)	(20,677)
Total Net Patient Service Revenue	**$ 209,752**	**$ 244,449**	**$ 265,714**

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 2003-2014
Medicaid 2011-2014

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, $(8,879), $5,179 and $1,382, for the years ended June 30, 2014, 2013, and 2012, respectively.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Third-party settlement revenue	June 30, 2014	June 30, 2013	June 30, 2012
Medicare appeals	$ (9,472)	$ 1,556	$ (1,007)
Medicare pass-through	10,907	12,439	10,493
Disproportionate Share Hospital	37,406	34,656	29,513
Graduate Medical Education	5,338	5,719	4,272
Other	5,773	4,489	44
Total third-party settlement revenue	**$ 49,952**	**$ 58,859**	**$ 43,315**

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	2014	2013	2012
Land and land improvements	$ 5,297	$ 5,297	$ 5,297
Buildings and building Improvements	153,427	152,495	151,290
Furniture and equipment	142,842	142,262	136,281
Equipment under capital leases	44,877	40,457	30,093
Software and computer hardware	39,988	36,596	26,845
Construction in progress	260	536	5,463
Property, plant and equipment, gross	386,691	377,643	355,269
Accumulated depreciation and Amortization	(267,045)	(249,440)	(232,933)
Property, plant and equipment, net	**$ 119,646**	**$ 128,203**	**$ 122,336**

Depreciation and amortization expense for the fiscal years ended June 30, 2014, 2013, and 2012 were $17,667, $16,460 and $14,284, respectively.

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	2014	2013	2012
Asset retirement costs	$ 969	$ 969	$ 969
Accumulated depreciation	774	730	686
Asset retirement obligation	2,461	2,387	2,315

Note 13 Leases

Lease Obligations

The Hospital is obligated under capital leases for the chiller, office and medical equipment that extend through 2019 in the amounts of $35,810, $36,944 and $30,566 respectively at June 30, 2014, 2013 and 2012. The assets are amortized over their estimated useful lives. Accumulated amortization related to the leased assets is $14,618, $9,905 and $6,189 at June 30, 2014, 2013 and 2012, respectively.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

In fiscal year 2012, the University has committed to drawing additional funds of $2,835 under an existing lease financing arrangement, a portion of which will be used to finance medical equipment. The lease periods commence in future months and continue for a period of five years after the start date.

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 2030. 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**	**Operating Leases**
2015	$ 8,578	$ 79
2016	7,121	
2017	5,602	--
2018	3,990	--
2019 and thereafter	29,760	--
Obligation, gross	55,051	79
Amounts representing interest rates	(19,241)	--
Total Lease Obligations	**$ 35,810**	**$ 79**

Sale / Leaseback 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.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Bonds Payable	**2014**	**2013**	**2012**
District of Columbia issues:			
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 531	$ 564	$ 595
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	14,166	14,166	14,166
2011B Revenue bonds 4.31% to 7.63% Serial due 2015 through 2035	18,045	18,045	18,045
Total bonds payable, gross	**$ 32,742**	**$ 32,775**	**$ 32,806**
Unamortized bond premium (discount)	(642)	(666)	(690)
Total bonds payable, net	**$ 32,100**	**$ 32,109**	**$ 32,116**

(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 5.250% 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. Howard shall retain an independent accounting firm or an independent financial advisor to determine the Make-Whole Redemption Price.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

(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, 2014, 2013 and 2012, the estimated fair value was approximately $36,239, $36,385 and $37,055 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.

The 2011 Bond and Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2014.

Covenant	Instrument	Measurement Dates	Criteria
Debt Service Coverage Ratio	2011 Revenue Bonds	June 30 each year	1.10:1.00
Debt Service Coverage Ratio	Multi-bank Credit Agreement	June 30 each year	1.25:1.00
Liquidity Ratio	Multi-bank Credit Agreement	June 30 and December 31	0.25:1.00

At June 30, 2014 Howard was in compliance with the Liquidity Ratio for the 2011 Revenue Bonds and the Multi-bank Credit Agreement, but was not in compliance with Debt Service Coverage Ratio 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 and delivered to their collateral agent. The carrying value of the pledged securities is $128,952 and is reported in endowment investments. Howard will pledge additional collateral when the collateral value is less than the minimum collateral amount. The custodial agent is not allowed to re-pledge or sell the collateral securities.

At June 30, 2013 and 2012 Howard was in compliance with the Liquidity Ratio and the Debt Service Coverage Ratio for the 2011 Revenue Bonds and the Multi-bank Credit Agreement.

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, 2014, 2013 and 2012 (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.

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, 2014, 2013 and 2012, using a June 30 measurement date follows:

	Pension			Medical and Life Insurance			Savings Plan			Total		
Retirement Benefits	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Change in benefit obligation:												
Projected benefit obligation at beginning of year	$ 170,485	$ 173,643	$ 145,794	$ 14,197	$ 56,362	$ 54,560	$ -	$ -	$ -	$ 184,682	$ 230,005	$ 200,354
Service cost	-	-	-	132	210	149	-	-	-	132	210	149
Interest cost	8,015	7,281	8,176	673	1,912	3,008	-	-	-	8,688	9,193	11,184
Actuarial (gain)/loss	12,770	(3,635)	25,837	2,578	(1,399)	1,373	-	-	-	15,348	(5,034)	27,210
Benefits paid	(7,207)	(6,804)	(6,164)	(2,497)	(3,829)	(4,058)	-	-	-	(9,704)	(10,633)	(10,222)
Special termination benefits	-	-	-	-	-	-	-	-	-	-	-	-
Medicare Part D subsidy	-	-	-	174	242	99	-	-	-	174	242	99
Employee contributions	-	-	-	1,464	1,318	1,231	-	-	-	1,464	1,318	1,231
Prior service amendment	-	-	-	-	-	-	-	-	-	-	-	-
Plan amendments	2,700	-	-	-	(40,619)	-	-	-	-	2,700	(40,619)	-
Projected benefit obligation at end of the period	**$ 186,763**	**$ 170,485**	**$ 173,643**	**$ 16,721**	**$ 14,197**	**$ 56,362**	**$ -**	**$ -**	**$ -**	**$ 203,484**	**$ 184,682**	**$ 230,005**
Change in plan assets:												
Fair value of plan assets at beginning of year	135,238	127,219	125,591	-	-	-	-	-	-	135,238	127,219	125,591
Actual return on plan assets	25,418	10,021	277	-	-	-	-	-	-	25,418	10,021	277
Employer contributions	3,115	4,802	7,515	859	2,269	2,728	6,221	6,791	6,078	10,195	13,862	16,321
Employee contributions	-	-	-	1,464	1,318	1,231	-	-	-	1,464	1,318	1,231
Medicare Part D subsidy	-	-	-	174	242	99	-	-	-	174	242	99
Benefits paid	(7,207)	(6,804)	(6,164)	(2,497)	(3,829)	(4,058)	-	-	-	(9,704)	(10,633)	(10,222)
Fair value at end of year	**$ 156,564**	**$ 135,238**	**$ 127,219**	**$ -**	**$ -**	**$ -**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
Total	**$ (30,199)**	**$ (35,247)**	**$ (46,424)**	**$ (16,721)**	**$ (14,197)**	**$ (56,362)**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets at June 30, 2014, 2013 and 2012:

	Pension			Medical and Life Insurance			Savings Plan			Total		
Retirement Benefits	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Recognized in Statements of Activities:												
Amortization of transition obligation	$ -	$ -	$ -	$ -	$ 923	$ 1,218	$ -	$ -	$ -	$ -	$ 923	$ 1,218
Amortization of prior service cost	-	-	-	(4,798)	(741)	665	-	-	-	(4,798)	(741)	665
Amortization of net actuarial loss	1,923	1,932	882	621	431	228	-	-	-	2,544	2,363	1,110
Total amortization	**1,923**	**1,932**	**882**	**(4,177)**	**613**	**2,111**	**-**	**-**	**-**	**(2,254)**	**2,545**	**2,993**
Service cost	-	-	-	132	210	149	7,281	6,221	6,791	7,413	6,431	6,940
Interest cost	8,015	7,281	8,176	673	1,912	3,008	-	-	-	8,688	9,193	11,184
Expected return on plan assets	(7,645)	(8,348)	(8,566)	-	-	-	-	-	-	(7,645)	(8,348)	(8,566)
Curtailment loss	-	-	-	-	-	-	-	-	-	-	-	-
Special termination benefit recognized	-	-	-	-	-	-	-	-	-	-	-	-
Recognized in operating expenses	**$ 2,293**	**$ 865**	**$ 492**	**$ (3,372)**	**$ 2,735**	**$ 5,268**	**$ 7,281**	**$ 6,221**	**$ 6,791**	**$ 6,202**	**$ 9,821**	**$ 12,551**
Amortization of transition obligation	-	-	-	-	(923)	(1,218)	-	-	-	-	(923)	(1,218)
Amortization of prior service cost	-	-	-	4,798	741	(665)	-	-	-	4,798	741	(665)
Amortization of actuarial loss	(1,923)	(1,932)	(882)	(621)	(431)	(228)	-	-	-	(2,544)	(2,363)	(1,110)
Total amortization	**(1,923)**	**(1,932)**	**(882)**	**4,177**	**(613)**	**(2,111)**	**-**	**-**	**-**	**2,254**	**(2,545)**	**(2,993)**
Net actuarial (gain) loss during the year	(5,003)	(5,307)	34,131	2,578	1,054	1,373	-	-	-	(2,425)	(4,253)	35,504
New prior service cost arising during period	2,700	-	-	-	(40,619)	-	-	-	-	2,700	(40,619)	-
Curtailment loss	-	-	-	-	-	-	-	-	-	-	-	-
Total recognized in other changes in unrestricted net assets	**$ (4,226)**	**$ (7,239)**	**$ 33,249**	**$ 6,755**	**$ (40,178)**	**$ (738)**	**$ -**	**$ -**	**$ -**	**$ 2,529**	**$ (47,417)**	**$ 32,511**
Total recognized in Statements of Activities	**$ (1,933)**	**$ (6,374)**	**$ 33,741**	**$ 3,383**	**$ (37,443)**	**$ 4,530**	**$ 7,281**	**$ 6,221**	**$ 6,791**	**$ 8,731**	**$ (37,596)**	**$ 45,062**

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2014, 2013 and 2012:

	Pension			Medical and Life Insurance		
Retirement Benefits	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Net actuarial loss	$ (58,582)	$ (65,507)	$ (72,747)	$ (8,764)	$ (6,807)	$ (8,637)
Prior service cost	(2,700)	--	--	22,379	27,177	(12,394)
Transition obligation	--	--	--	--	--	(1,230)
Total	**$ (61,282)**	**$ (65,507)**	**$ (72,747)**	**$ 13,615**	**$ 20,370**	**$ (22,261)**

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 $2,544, $(4,798), and $0, respectively.

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for the years ended June 30, 2014, 2013 and 2012 were as follows:

	Pension Benefits			Post-retirement Benefits		
Actuarial Assumptions	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Discount rate	4.25%	4.82%	4.29%	4.29%	4.89%	4.25%
Expected return on plan assets	7.00%	7.00%	7.50%	0.00%	0.00%	0.00%
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	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Discount rate	4.82%	4.29%	5.76%	4.89%	4.25%	5.69%
Expected return on plan assets	7.00%	7.00%	7.50%	0.00%	0.00%	0.00%
Rate of compensation increase						
To age 35	--	--	--	3.50%	3.50%	3.50%
Thereafter	--	--	--	3.50%	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, 2014, 2013 and 2012 (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
International Equity (3)	---			---
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	74,049	53,655	31,078	158,783
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	**$ 71,833**	**$ 53,653**	**$ 31,078**	**$156,564**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Pension plan investments as of June 30, 2013 were as follows:

Pension Plan Investments as of June 30, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments				
Money Market Instrument (1)	$ --	$ 1,517	$ --	$ 1,517
Commingled Funds (3)				
Emerging Market Equity (3)	--	13,346	--	13,346
Common Stock (3)	--	7,379	--	7,379
Commodity Inflation Hedging (8)		4,429		4,429
Common Stock (3)	12,892	--	--	12,892
Fixed Income (2)				
Asset backed	--	1,737	--	1,737
Corporate Bonds	--	589	--	589
Government Bond	12,873	--	--	12,873
Hedge Funds (4)				
Distressed Debt	--	772	--	772
Equity Long/short	--	1,346	--	1,346
Event driven	--	708	788	1,496
Multi-Global opportunities	--	1,038	--	1,038
Multi-strategy	--	6,931	655	7,586
Mutual Funds Investment				
Domestic common stock (3)	9,510	--	--	9,510
International Equity (3)	7,704			7,704
Domestic Fixed Income (2)	16,869	--	--	16,869
Emerging Market Equity (3)	6,151			6,151
Private Equity and Venture Capital (4)	--	--	25,844	25,844
Real Estate (4)	--	--	2,418	2,418
Total pension plans investments	65,999	39,792	29,705	135,496
Liabilities Financial derivatives – options contracts		(66)		(66)
Operating assets not subject to fair value reporting	884		--	884
Operating liabilities not subject to fair value reporting	(1,076)	--	--	(1,076)
Total	**$ 65,807**	**$ 39,726**	**$ 29,705**	**$135,238**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Pension plan investments as of June 30, 2012 were as follows:

Pension Plan Investments as of June 30, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments				
Money Market Instrument (1)	$ 227	$ 3,630	$ --	$ 3,857
Commingled Funds (3)				
Emerging Market Equity (3)	--	10,443	--	10,443
Common Stock (3)	--	6,288	--	6,288
Common Stock (3)	28,464	--	--	28,464
Fixed Income (2)				
Asset backed	--	1,044	--	1,044
Corporate Bonds	5	378	--	383
Government Bond	12,455	--	--	12,455
Hedge Funds (4)				
Distressed Debt	--	634	--	634
Equity Long/short	--	1,239	--	1,239
Event driven	--	514	726	1,240
Inflation hedge	--	3,792	--	3,792
Multi-Global opportunities	--	935	--	935
Multi-strategy	--	6,356	549	6,905
Mutual Funds Investment				
Domestic common stock (3)	3,728	--	--	3,728
Domestic Fixed Income (2)	14,712	--	--	14,712
Emerging Market Equity (3)	2,815			2,815
Private Equity and Venture Capital (4)	--	--	25,686	25,686
Real Estate (4)	--	--	2,484	2,484
Total pension plans investments	62,406	35,253	29,445	127,104
Operating assets not subject to fair value reporting	440	--	--	440
Operating liabilities not subject to fair value reporting	(325)	--	--	(325)
Total	**$ 62,521**	**$ 35,253**	**$ 29,445**	**$127,219**

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, 2014, 2013 and 2012 (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, 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)	--	(231)	(8,134)
Balance June 30, 2014	**$ 25,754**	**$ 1,593**	**$ 3,731**	**$ 31,078**

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, 2013.

Changes in Level 3 Security Value year ended June 30, 2013	**Equity – Private and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2012	$ 25,686	$ 1,275	$ 2,484	$ 29,445
Gain and Loss (Realized and Unrealized)	3,856	168	236	4,260
Purchases	2,450	--	--	2,450
Transfer out and Sales	(6,148)	--	(302)	(6,450)
Balance June 30, 2013	**$ 25,844**	**$ 1,443**	**$ 2,418**	**$ 29,705**

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, 2012.

Changes in Level 3 Security Value year ended June 30, 2012	**Equity – Private and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2011	$ 23,521	$ 1,230	$ 2,186	$ 26,937
Gain and Loss (Realized and Unrealized)	1,269	45	392	1,706
Purchases	4,067	--	38	4,105
Transfer out and Sales	(3,171)	--	(132)	(3,303)
Balance June 30, 2012	**$ 25,686**	**$ 1,275**	**$ 2,484**	**$ 29,445**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Pension Plan Investment Commitments – The University's investment commitments as of June 30, 2014, 2013 and 2012, 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.

Pension Plan Investment Commitment	**2014**	**2013**	**2012**
Private Equity Funds	$ 144,203	$ 139,203	$ 136,703
Real Estate Funds	15,000	15,000	15,000
Total financial commitment	**159,203**	**154,203**	**151,703**
Amounts funded	144,844	133,412	124,554
Unfunded commitment	**$ 14,359**	**$ 20,791**	**$ 27,149**

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

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

Pension Plan Asset Allocation	**2014**	**2013**	**2012**	**Allowable Range**
Mid-Large Cap U.S. Equity	11.5%	13.7%	18.0%	10-20%
Small Cap U.S. Equity	3.9%	4.8%	4.5%	0-10%
International Equity - Developed	15.8%	15.6%	13.1%	10-20%
Private Equity/Venture Capital	15.7%	18.5%	20.0%	5-15%
Hedge Funds	5.2%	8.5%	8.7%	5-15%
Inflation Hedging	9.7%	8.7%	7.9%	10-15%
Emerging Markets Equity	2.3%	4.6%	2.2%	5-15%
U.S. Core Bonds	31.7%	23.8%	22.6%	25-35%
Cash and Cash Equivalents	4.2%	1.8%	3.0%	0-5%
Total	**100%**	**100%**	**100%**	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2013 was 8.1%. This growth rate was assumed to decrease gradually to 4.5% in 2030 and to remain at this level thereafter. The growth rate in the trend rate dental care costs used in the calculations for fiscal year 2013 is 7.9%. The growth rate was assumed to decrease gradually to 4.5% by 2030 and to remain at that 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 change in assumed annual health care cost trend rate would change the service and interest components of retiree medical expense by approximately \$100 - \$200, and the post retirement obligation by approximately \$1,000 - \$2,000 in each year presented.

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% 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 \$6,221, \$6,791 and \$6,078 for fiscal years ended June 30, 2014, 2013 and 2012, 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*

The Hospital has obligations under three collective bargaining agreements with unions representing certain employees.

1. **American Federation of State, County and Municipal Employees (Local 2094)** - A new agreement was signed on November 15, 2012. Local 2094 members represent 28.2%, 28.8% and 28.8% of the Hospital’s salaries and wages as of June 30, 2014, 2013 and 2012, respectively.

2. **District of Columbia Nurses Association (DCNA)** -A new agreement was ratified in June 2013 and signed July 25, 2013. DCNA members represent 42.4%, 37.2% and 37.2% of the Hospital's salaries and wages as of June 30, 2014, 2013 and 2012, respectively.

3. **Security Police and Fire Professionals of America (SPFPA) (Security) -** agreement was entered into on January 28, 2010 and will be effective through January 27, 2013. SPFPA Security members represent 0.01%, 0.94% and 0.94% of the Hospital's salaries and wages as of June 30, 2014, 2013 and 2012, respectively.

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, 2014, 2013 and 2012 (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, 2014, 2013 and 2012 are shown in the table below:

Interdivisional Transactions – Operating and Capital	**2014**	**2013**	**2012**
Operating charges allocated from the Hospital to the University:			
Medical malpractice	$ 5,117	$ 5,929	$ 2,981
Facilities	855	859	583
Administrative services	527	380	319
Physicians salaries	(13,908)	(15,940)	(13,530)
Total charges allocated from the Hospital to the University	**(7,409)**	**(8,772)**	**(9,647)**
Operating charges allocated to the Hospital from the University:			
Employee tuition remission	(2,069)	(1,536)	(1,326)
Health insurance	--	599	893
Utilities	(5,058)	(4,202)	(4,294)
Other	(12,095)	(653)	(249)
Total charges allocated to the Hospital from the University	**(19,222)**	**(5,792)**	**(4,976)**
Net charges allocated from the Hospital/(allocated to the Hospital):	**(26,631)**	**(14,564)**	**(14,623)**
Federal appropriation allocated to the Hospital from the University	26,700	28,479	28,833
Total operating support provided from the University to the Hospital	**69**	**13,915**	**14,210**
Financing support provided from the University to the Hospital:			
Acquisition of equipment under capital leases	4,420	10,383	3,138
Capital lease payments made by the Hospital	(5,553)	(3,986)	(2,502)
Bond payments made by the Hospital	--	(8)	(44)
Total financing support provided to the Hospital	**(1,133)**	**6,389**	**592**
Total support provided to the Hospital	**$ (1,064)**	**$ 20,304**	**$ 14,802**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Interdivisional balances on the Statements of Financial Position as of June 30, 2014, 2013 and 2012 were as follows:

Interdivisional Balances – Statements of Financial Position	2014	2013	2012
Current assets	$ --	$ 15,474	$ 31,004
Current liabilities	(805)	(805)	(805)
Long term liabilities	(17,217)	(6,060)	(6,060)
Total interdivisional balances	**$ (18,022)**	**$ 8,609**	**$ 24,139**

Changes in interdivisional balances for the years ended June 30, 2014, 2013 and 2012 were as follows:

Interdivisional Transactions – Statements of Financial Position	2014	2013	2012
Short term financing	$ --	$ (10,684)	$ 23,000
Bond transactions, net	(2,350)	(2,169)	(967)
Long term financing	(5,292)	11,886	600
Net charges recovered from the University/(allocated to the Hospital)	(18,989)	(14,563)	(14,623)
Net activity during the year	(26,631)	(15,530)	8,010
Balance at beginning of the year	8,609	24,139	16,129
Balance at end of the year	**$ (18,022)**	**$ 8,609**	**$ 24,139**

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

Interdivisional Balances – Asset/Liability Allocations	2014	2013	2012
Assets:			
Deposits with trustees	$ 1,795	$ 1,772	$ 8,551
Pension assets	156,564	135,238	126,773
Total assets	**158,359**	**137,010**	**135,324**
Liabilities:			
Reserves for self-insured liabilities	72,904	75,220	63,534
Capital lease obligations	35,810	36,944	30,566
Bonds payable	32,100	32,109	32,117
Total liabilities	**$ 140,814**	**$ 144,273**	**$ 126,217**

For Fiscal Years ended June 30, 2014, 2013 and 2012 (amounts in thousands)

Note 18 The Howard Dialysis Center

The University, on behalf of the Hospital, and American Renal Associates, LLC ("ARA") entered into a joint venture to form and operate 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.

As of June 30, 2014, 2013, and 2016 the Statements of Financial Position for the LLC is as follows:

Howard Dialysis Center, LLC Statement of Financial Position As of June 30, 2014 and 2013	**June 30, 2014**	**June 30, 2013**	**June 30, 2012**
Total Assets	**$ 12,069**	**$ 11,919**	**$ 11,119**
Total Liabilities	**1,177**	**2,123**	**2,066**
Equity			
Partner	9,986	9,322	9,000
Retained earning	1,906	474	53
Total Equity	**11,892**	**9,796**	**9,053**
ARA interest	**$ 5,555**	**$ 4,996**	**$ 4,617**
Howard interest	**$ 5,337**	**$ 4,800**	**$ 4,436**

Note 19 Subsequent Events

The Hospital performed an evaluation of subsequent events through January 28, 2015, which is the date of the financial statements were issued, nothing no additional events other than those as described below which materially affects the financial statements as of June 30, 2014.

(a) ***2011 Revenue Bonds***

In July 2014 Moody's Investors Service downgraded Howard's Series 2011A and 2011B bonds to Baa3 negative from Baa1, for the second downgrade this year. The downgrade is largely driven by pressure on all of the University's major revenue sources. Howard has since put into motion a strategy to boost operational efficiency and make long-term structural changes to Howard and the Hospital.

(b) ***Paladin Management Service Agreement***

In October 2014, Howard University engaged the California based Paladin Healthcare Capital to provide management services to oversee all hospital operations. Paladin will provide C- suite and other hospital managers to reengineer and transform processes to enhance operational efficiency. Howard University will pay Paladin a management fee, and Paladin will hold no equity in the hospital. Howard University is still the licensed operator of the hospital and will remain in control over the institute's financial decision.

(c) ***Compliance with Contractual Convents***

At June 30, 2014, Howard was not in compliance with Debt Service Coverage Ratio for the Multi-Bank Credit Agreement. The non-compliance was cured October 31, 2014. See Note 14 for additional information.