The Howard University Hospital

(an unincorporated operating segment of The Howard University)
Financial Statements
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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

February 12, 2019

Statements of Financial Position **As of June 30:** *(in thousands)*	**2018**	**2017**
Assets:		
Current assets		
Cash and cash equivalents	$ 9,461	$ 13,253
Deposits with trustees	625	401
Patient Receivable, net of allowance	26,946	37,364
Inventories and prepaid	6,208	5,521
Other receivables	1,359	1,892
Total current assets	**44,599**	**58,431**
Non-current assets		
Deposits with trustees	1,747	1,730
Third Party & Insurance Recoveries, net	10,890	13,050
Finance right of use assets, net	22,286	25,814
Long-lived assets, net	57,958	56,456
Other non-current assets, net	4,941	5,244
Total Assets	**$ 142,421**	**$ 160,725**
Liabilities:		
Current liabilities		
Accounts payable and accrued expenses	$ 28,846	25,843
Accrued post-retirement benefits	614	685
Reserve for self-insured liabilities	1,421	13,835
Bonds payable, net	772	626
Finance lease obligations	3,376	5,203
Due to Howard University	805	805
Other liabilities	495	549
Total current liabilities	**36,329**	**47,546**
Non-current liabilities		
Accrued post-retirement benefits	9,645	10,838
Underfunded defined benefit pension plan	33,748	40,030
Reserve for self-insured liabilities	56,699	52,148
Bonds payable, net	27,284	28,013
Finance lease obligations	20,327	22,590
Due to Howard University	25,521	28,571
Total Liabilities	**209,553**	**229,736**
Net Assets (deficit):		
Unrestricted	(112,132)	(114,011)
Inter-divisional transfer	45,000	45,000
Total net assets (deficit)	**(67,132)**	**(69,011)**
Total liabilities and net assets (deficit)	**$ 142,421**	**160,725**

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)	**2018**	**2017**
Patient service revenue, net of contractual allowances, charity care and discounts	$ 244,269	$ 269,743
Less: Bad debt expense	36,292	38,245
Total patient service revenue, net	**207,977**	**231,498**
Federal appropriation	27,325	27,500
Other income	6,350	6,210
Total operating revenues	**241,652**	**265,208**
Salaries and wages	120,385	113,247
Employee benefits other than retirement plans	20,873	29,970
Retirement plans including amortization of actuarial losses previously recognized as non-operating items ($1,721) and ($810)	1,171	5,087
Utilities and telecommunications	9,045	8,821
Medical and office supplies	22,984	20,700
Repairs and maintenance	8,787	8,101
Food service costs	3,320	2,178
Insurance and risk management	6,061	12,003
Professional and administrative services	36,177	35,869
Interest expense	4,118	4,024
Depreciation and amortization	8,251	13,582
Total operating expenses	**241,172**	**253,582**
Income from defeased bonds	-	2,082
Operating revenues over operating expenses	**480**	**13,708**
Realized investment income	186	589
Excess of revenues under expenses	**666**	**14,297**
Change in funded status of defined benefit pension plan	3,973	9,916
Change in obligation for post retirement benefit plan	(2,760)	893
Change in net deficit	**$ 1,879**	**$ 25,106**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows For Fiscal Years Ended June 30: *(in thousands)*	2018	2017
Cash flows from operating activities		
Change in net assets (deficit)	$ 1,879	$ 25,106
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	8,251	13,582
Loss on sale/disposal of long-lived assets	-	1,210
Change and/or remeasurement of leases	-	3,567
Bond discount amortization	24	24
Bond issuance costs	19	19
Bonds defeased	-	(2,082)
Provision for bad debts	36,292	38,245
(Decrease) in pension/post retirement liability	(7,546)	(12,918)
Changes in net assets adjusted for non-cash operating items	**38,919**	**66,753**
Change in receivables (excluding notes)	(23,181)	(32,389)
Change in inventory and prepaid	(687)	(288)
Change in other non-current assets	303	534
Change in accounts payable and accrued expenses	3,003	(5,433)
Change in reserve for self-insured liabilities	(7,863)	(4,945)
Change in other liabilities	(54)	(5,213)
Net cash and cash equivalents provided by operating activities	**10,440**	**19,019**
Cash flows from investing activities		
Purchases of investments	(241)	(403)
Purchases and renovations of long-lived assets	(4,701)	(1,911)
Net cash and cash equivalents (used in) investing activities	**(4,942)**	(2,314)
Cash flows from financing activities		
Payment on bonds payable	(626)	(994)
Financing leases (payments) receipts, net	(5,614)	(6,073)
Change in due to (from) Howard University	(3,050)	(8,829)
Net cash and cash equivalents (used in) financing activities	**(9,290)**	**(15,896)**
Net increase (decrease) in cash and cash equivalents	**(3,792)**	**809**
Cash and cash equivalents at beginning of year	13,253	12,444
Cash and cash equivalents at end of year	**$ 9,461**	**$ 13,253**
Supplemental cash flow information:		
Net cash paid for interest	**$ 4,126**	**$ 1,831**
Supplemental non-cash investing information:		
Acquisition of equipment under financing leases, net	**$ 1,524**	**$ 253**

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 Hospital is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. 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 March 31, 2020.

(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 Howard's Form 990. The Hospital does not have any uncertain tax positions as of June 30, 2018 and 2017.

(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) ***Changes in Accounting Principles***

The Financial Accounting Standards Board (FASB) issued ASU 2015-01 Income Statement Extraordinary and Unusual Items, which simplifies the income presentation by eliminating the concept of extraordinary items from Generally Accepted Accounting Principles (GAAP). The new accounting treatment of unusual or infrequent occurring items requires reporting of the transaction as a separate component of income from continuing operations, which is different from the prior accounting treatment that required the classification of an extraordinary event to be reported separately on the income statement after income from continuing operations. ASU 2015-01 was effective for fiscal years beginning after December 15, 2015. In fiscal year 2017, Howard entered into a Service Concession Agreement resulting in a bond defeasance for the 2011A Bonds. See Note 13 for a description of the bond defeasance.

The FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the Statements of Financial Position as a direct deduction from the carrying amount of that debt liability. The ASU was effective for fiscal years beginning after December 15, 2015. This is a change from previous treatment where debt issuance costs were reported as an asset in the Statements of Financial Position. The ASU must be applied retrospectively. For fiscal years ending 2018 and 2017, the Hospital has debt issuance costs related to the 2010, 2011A and 2011B bonds of $19 and 19, respectively, as shown in the Statements of Cash Flows. In fiscal year 2017, the Hospital adopted the new principle and has reclassified the debt issuance costs from other non-current assets and deducted it from the bonds payable liability on the Statements of Financial Position for all years presented.

The Hospital completed an early adoption of ASU 2016-02 (Topic 842) Leases. Topic 842 establishes the principles that lessees and lessors shall report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease by increasing transparency and comparability by recognizing lease assets and lease liabilities on the Statements of Financial Position. The ASU must be applied retrospectively. See Note 12 for a description of the impact of this change on the financial statements

(f) 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 statements 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, 2018 and 2017, the Hospital did not have any temporarily restricted or permanently restricted net assets.

(g) 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.

(h) 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 and trued up to actual cash received at the end of the fiscal year. 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, 2018 and 2017, respectively, the Hospital received approximately 11% and 10%, of its revenue support from the Federal appropriation.

(i) Cash and Cash Equivalents

Short-term investments with maturities, at date of purchase, of nine 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 which are carried at fair value.

(j) 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, 2018 and 2017 (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 Deficit 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, 2018 and 2017.

(k) ***Inventories***

Inventories, which primarily consist of medical supplies and pharmaceuticals, are recorded at the lower of cost or realizable value on the first-in, first-out basis. The reserve for slow moving and obsolete inventories as of June 30, 2018 and 2017 was $0 and $0, respectively.

(l) ***Long-Lived Assets and Right-of Use Assets***

Long-lived assets are stated at cost, or at fair value if received by gift, less accumulated depreciation. 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. Long-lived assets are capitalizable when the unit cost is equal to or exceeds $3 and has a useful life of more than one year. Depreciation is computed utilizing the straight-line method, half-year convention over the following estimated useful lives of the assets:

Land and land improvements	0-25 years
Building and building improvements	5-40 years
Furniture and equipment	3-20 years
Software and computer hardware	3-10 years

Finance right-of-use assets are initially measured at the present value of the lease payments. Amortization is computed utilizing the straight-line method over the term of the lease.

(m) ***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 any impairment loss for the years ended June 30, 2018 and 2017.

(n) ***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.

(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 Howard'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. Howard'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 and subject to maximum carryover. This obligation is recognized on the Statements of Financial Position as part of accounts payable and accrued expenses. At fiscal years ended June 30, 2018 and 2017, the obligation was $2,016 and $1,866, respectively.

(r) ***Functional expenses***

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

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Expenses related to providing these services for the fiscal years ended June 30 were as follows:

Functional expenses	2018	2017
Patient care	$ 208,567	$ 210,177
Institutional support	32,605	43,405
Total	**$ 241,172**	**$ 253,582**

(s) Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2018-13 Fair Value Measurement (Topic 820) *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the Concepts Statement, including the consideration of costs and benefits. The Hospital is currently evaluating the impact of this amendment on its financial statements.

In June 2018, the FASB issued ASU number 2018-08 (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this Update should assist entities in 1.) Evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-For-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and 2.) Determining whether a contribution is conditional. The Hospital is currently evaluating Topic 958 and its impact on its fiscal year 2019 financial statements.

In January 2018, the FASB issued ASU number 2018-01 (Topic 842), *Leases: Land Easement Practical Expedient for Transition to Topic 842*. The ASU provides optional transition practical expedient for the adoption of ASU 2016-02 Leases and clarifies that new or modified land easements should be evaluated under ASU 2016-02 once an entity has adopted the new standard. The Hospital early adopted ASU 2016-02 Leases and will apply the provisions of ASU 2018-01 in its current reporting where applicable.

In July 2017, the FASB issued ASU number 2017-11 (Topic 815), *Derivatives and Hedging*. The ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. The Hospital is currently evaluating Topic 815 and planning for the implementation in fiscal year 2019.

In March 2017, the FASB issued ASU number 2017-07 (Topic 715*), Compensation—Retirement Benefits,* which provides guidance on the presentation of net benefit cost in the income statement and on the components eligible for capitalization in assets. The Update requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It allows only the service cost component to be eligible for capitalization when applicable. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's Statement of Financial Position shall be disclosed as of the date of each Statement of Financial Position presented. The Hospital is currently evaluating and assessing the implementation of this new pronouncement, which will be adopted in fiscal year 2019.

In February 2017, the FASB issued ASU number 2017-05 (Topic 610-20), *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets,* which provides clarity to the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. The amendments define the term *in substance nonfinancial asset*, in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20. The Hospital is currently evaluating and assessing ASU number 2017-05 to determine whether it applies to its operations.

In January 2017, the FASB issued ASU number 2017-02 (Subtopic 958-810), *Not-for-Profit Entities—Consolidation*. The ASU provides guidance on when a not-for-profit entity (NFP) that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. 2015-02 are effective. Subtopic 958-810 provides general guidance in Subtopic 810-10 on when NFP limited partners should consolidate a limited partnership. The update applies to an NFP that is a general partner or a limited partner of a for-profit limited partnership or a similar legal entity. A similar legal entity is an entity such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership. In those entities, a managing member is the functional equivalent of a general partner, and a non-managing member is the functional equivalent of a limited partner. The Hospital is currently evaluating and assessing ASU number 2017-02 to determine whether it applies to its operations due to the entities created as part of the real estate transactions.

In December 2016, the FASB issued ASU number 2016-18 (Topic 230), *Statement of Cash Flows.* The ASU provides guidance on all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. The Hospital is currently evaluating Topic 230 and planning for the implementation in fiscal year 2019.

In August 2016, the FASB issued ASU number 2016-15 (Topic 230), *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments.* The ASU provides guidance *on* all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. This Update provide guidance on the following eight specific cash flow issues: (1) Debt Prepayment or Debt Extinguishment Costs, (2) Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing, (3) Contingent Consideration Payments Made after a Business Combination, (4) Proceeds from the Settlement of Insurance Claims, (5) Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies, (6) Distributions Received from Equity Method Investees, (7) Beneficial Interests in Securitization Transactions, and (8) Separately Identifiable Cash Flows and Application of the Predominance Principle. The Hospital has assessed and evaluated ASU number 2016-15 and determined it is applicable to its operations. These new pronouncements will be adopted in fiscal year 2019.

In August 2016, the FASB issued ASU number 2016-14 (Topic 958), *Not-for-Profit Entities.* The ASU provides guidance improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entity's (NFP's) such as liquidity, financial performance, and cash flows so useful information can be provided to donors, grantors, creditors, and other users of financial statements. This Update makes several improvements to current reporting requirements that address, among others, the following problems: (1) Complexities about the use of the currently required three classes of net assets that focus on the absence or presence of donor-imposed restrictions and whether those restrictions are temporary or permanent, (2) Deficiencies in the transparency and utility of information useful in assessing an entity's liquidity caused by potential misunderstandings and confusion about the term *unrestricted net assets* and how restrictions or limits imposed by donors, grantors, laws, contracts, and governing boards affect an entity's liquidity, classes of net assets, and financial performance, (3) Inconsistencies in the type of information provided about expenses of the period, and (4) Impediment of preparing the indirect method reconciliation if an NFP chooses to use the direct method of presenting operating cash flows. This new pronouncement will be adopted in fiscal year 2019.

In January 2016, the FASB issued ASU number 2016-01 (Subtopic 825-10), *Financial Instruments—Overall.* The ASU provides guidance on certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Board also is addressing measurement of credit losses on financial assets in a separate project. The updates affect all entities that hold financial assets or owe financial liabilities. The amendments in this Update make targeted improvements to generally accepted accounting principles (GAAP) as follows: (1) Require equity investments to be measured at fair value with changes in fair value recognized in net income, (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) Eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities, (4) Eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the Statement of Financial Position, (5) Require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (6) Require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (7) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the Statement of Financial Position or the accompanying notes to the financial statements, and (8) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The Hospital is currently evaluating and assessing ASU number 2016-01 to determine whether it applies to its operations due to the entities that either hold investments or debt.

In April 2015, the FASB issued ASU number 2015-04 (Topic 715), *Compensation—Retirement Benefits: Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets.* The ASU provides guidance on reducing the complexity in accounting standards by identifying, evaluating, and improving areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. A reporting entity with a fiscal year-end that does not coincide with a month-end may incur more costs than other entities when measuring the fair value of plan assets of a defined benefit pension or other postretirement benefit plan. The Hospital has assessed and evaluated ASU number 2015-04 and determined it is applicable to its operations. This new pronouncement was adopted in fiscal year 2017.

(t) ***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year's presentation. Such reclassifications did not have any impact on the Hospital's previously reported net deficit balances.

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 is calculated by the Hospital by multiplying the cost-to-charge ratio from the Medicare Cost Report by total charity costs. These estimated costs were $3,620 and $4,200 for fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017 were $46,737 and $47,257, 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 it 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.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Note 4 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	2018	2017
Medicare	11%	12%
Medicaid	37%	42%
Blue Cross	2%	5%
Other third-party payors	15%	17%
Patients	35%	24%
	100%	**100%**

Note 5 Receivables

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

Receivables	2018	2017
Patients	$ 76,603	$ 73,679
Third-party payors	10,890	13,050
Other	1,359	1,892
Totals	**$ 88,852**	**$ 88,621**

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

Allowance for Doubtful Receivables	2018	2017
Patients	$ 49,658	$ 36,315
Insurance claims	-	-
Totals	**$ 49,658**	**$ 36,315**

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

Provision for Bad Debt	2018	2017
Patients	$ 36,292	$ 38,245
Insurance claims	-	-
Totals	**$ 36,292**	**$ 38,245**

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.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

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, $49,658 and $36,315, for the periods ended June 30, 2018 and 2017. In addition, the Hospital's self-pay write-offs were $15,332 and $21,692 for the periods ended June 30, 2018 and 2017. 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 for fiscal years ended June 30, 2018 and 2017 reflected in total operating expenses on the Statements of Operations and Changes in Net Assets (Deficit). This 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 and Changes in Net Assets (Deficit).

Note 6 Accounts Payable and Accrued Expenses

Components of this liability account at June 30 are as follows:

Accounts Payable and Accrued Expenses	**2018**	**2017**
Vendor invoices	$ 19,332	$ 17,295
Accrued salaries and wages	6,681	5,942
Accrued employee benefits	817	739
Accrued annual leave	2,016	1,867
Total	**$ 28,846**	**$ 25,843**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Note 7 Deposits with Trustees and Self-insured Liabilities

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

	Dedicated Assets		Estimated Liability	
	2018	2017	2018	2017
Debt service reserve fund	$ 1,747	$ 1,730	NA	NA
Professional and general	-	-	$ 46,979	$ 53,975
Workers' compensation	4	9	9,721	10,548
Health Insurance	621	392	1,420	1,460
Total	**$ 2,372**	**$ 2,131**	**$ 58,120**	**$ 65,983**

NA = Not applicable

(a) ***Debt Service Reserve Fund***

As required by the 2011 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 all fiscal years reported. The portion of this fund allocated to the Hospital in fiscal years ended June 30, 2018 and 2017 is $1,747 and $1,730, 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, 2018. It is the opinion of management based on the advice of actuaries and legal counsel that the estimated malpractice costs accrued at June 30, 2018 and 2017 of approximately $46,979 and $53,975, 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, 2018 and 2017.

Professional liability activity was summarized as follows for fiscal years ended June 30 in the table below:

Professional Liability	2018	2017
Beginning Balance	$ 53,975	$ 59,127
Malpractice claims expense	6,153	6,081
Settlement payments	(13,149)	(11,233)
Ending Balance	**$ 46,979**	**$ 53,975**

(c) ***Workers' Compensation Liability***

Howard 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. Howard also maintains $6,248 in letters of credit, which serve as collateral for specific insurance carriers. These letters of credit are secured by Howard's multi-bank credit agreement. Howard is self-insured for workers' compensation claims up to per occurrence retention of $500. The excess is covered through commercial insurance.

For fiscal years ended June 30, 2018 and 2017 expenses related to workers' compensation were $1,873 and $4,348 respectively and are reflected in employee benefits.

The total estimated unlimited unpaid amount for future workers' compensation liability claims was approximately $17,802 and $19,749 at June 30, 2018 and 2017, 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. The net liability recorded on the accompanying Statements of Financial Position in reserves for self-insured liabilities was $9,721 and $10,548 at June 30, 2018 and 2017, respectively. Estimated claims for which payments will be covered under existing insurance policies were $8,081 and $9,201 at June 30, 2018 and 2017, respectively, net of allowances for uncollectible amounts and are reflected on the Statements of Financial Position in third party and insurance recoveries, net.

(d) ***Health Insurance***

Howard established a revocable self-insured trust fund for the purpose of funding group health benefits for its employees. The assets, held by Howard, 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, 2018 and 2017 is approximately $1,420 and $1,460, respectively.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Note 8 Fair Value Measurements

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

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

The Hospital's financial assets and liabilities subject to fair value accounting as of June 30 were as follows:

Fair Value as of June 30, 2018	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 9,461	$ -	$ 9,461
Deposits with Trustees (2)			
Cash and Cash equivalent (1)	625	-	625
Money Market Fund (1)	-	1,747	1,747
Total Asset (non-investment)	**$ 10,086**	**$ 1,747**	**$ 11,833**

Fair Value as of June 30, 2017	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 13,253	$ -	$ 13,253
Deposits with Trustees (2)			
Cash and Cash equivalent (1)	401	-	401
Money Market Fund (1)	-	1,730	1,730
Total Asset (non-investment)	**$ 13,654**	**$ 1,730**	**$ 15,384**

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 Statement of Financial Position as cash and cash equivalents approximate fair value because of the short maturities of those instruments.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

(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 Statement of Financial Position are fair value.

(3) Third party and Insurance Recoveries - The carrying amounts reported in the accompanying Statements of Financial Position for estimated third-party payor receivable 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 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:

	2018		**2017**	
	Carrying Amounts	**Fair Value**	**Carrying Amounts**	**Fair Value**
Assets:				
Cash and Cash Equivalents	$ 9,461	$ 9,461	$ 13,253	$ 13,253
Deposits with Trustees	$ 2,372	$ 2,372	$ 2,131	$ 2,131
Third-Party and Insurance Recoveries	$ 10,890	$ 10,890	$ 13,050	$ 13,050
Liabilities:				
Bonds Payable	$ 29,004	$ 33,438	$ 29,630	$ 34,897

Note 9 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***

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system (PPS) for general, acute care hospital inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned Medicare severity diagnosis-related group (MS-DRG). MS-DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis and are adjusted for area wage differentials. We receive reimbursement for inpatient capital costs and may receive additional "outlier" payments if treatment costs for certain patients exceed the normal distribution. Similar to the inpatient reimbursement, we receive a PPS based reimbursement for outpatient and other (Medicare Part B) services provided to our Medicare eligible patients. HUH receives disproportionate share hospital (DSH), medical education and capital payments on a per discharge basis. For the fiscal years ended June 30, 2018 and 2017, the Hospital received Medicare revenues attributable to DSH of $11,519 and $11,091, respectively.

(b) ***Medicaid***

Medicaid programs are funded jointly by the federal government and the states and are administered by the states, including the District of Columbia. Payments are based on the PPS system. The Hospital also receives DSH, and medical education and capital payments on a per discharge basis. For the fiscal years ended June 30, 2018 and 2017, the Hospital received Medicaid revenues attributable to DSH of $38,755 and $36,171, respectively.

(c) ***Cost Reports***

Federal and District of Columbia regulations require the submission of annual cost reports covering the revenues, costs and expenses associated with the services provided by the Hospital to Medicare beneficiaries and Medicaid recipients. The Hospital's cost reports are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to or due from the Hospital under these reimbursement programs.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

(d) *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, are shown below, including contractual allowances, charity care and bad debt.

Gross Revenues	**2018**	**2017**
Medicare	$ 87,662	$ 96,478
Medicaid	403,432	364,298
Blue Cross and others	153,196	153,523
Gross Revenues	**644,290**	**614,299**
Third- party payor settlement revenue	60,309	63,702
Contractual allowances and discounts	(449,885)	(399,246)
Charity care services	(10,445)	(9,012)
Bad debt	(36,292)	(38,245)
Total Net Patient Service Revenue	**$ 207,977**	**$ 231,498**

Note 10 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 (Medicare and Medicaid) for the years 2017 through 2018.

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in a decrease in net patient service revenues of approximately $1,163 for the fiscal year ended June 30, 2018 and an increase in net patient service revenues of approximately $9,364 for fiscal year ended June 30, 2017. Components of third-party settlement revenues for the fiscal years ended June 30 were as follows:

Third-party settlement revenue	**2018**	**2017**
Medicare pass-through	$ 11,519	$ 11,091
Disproportionate Share Hospital	38,755	36,171
Graduate Medical Education	9,682	6,793
Other	353	9,647
Total third-party settlement revenue	**$ 60,309**	**$ 63,702**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Note 11 Long-Lived Assets, net

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

Property, Plant and Equipment, net	2018	2017
Land and land improvements	$ 5,408	$ 5,383
Buildings and building improvements	153,392	152,687
Furniture and equipment	146,483	143,390
Software and computer hardware	42,052	41,506
Construction in progress	457	144
Long-lived assets, gross	347,792	343,110
Accumulated depreciation	(289,834)	(286,654)
Long-lived assets, net	**$ 57,958**	**$ 56,546**

Depreciation expense for the fiscal years ended June 30, 2018 and 2017 were $3,140 and $8,435, respectively.

Note 12 Leases

Lease Obligations

The Hospital has elected to adopt *ASC 2016-02, Leases (Topic 842)*. The new standard defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (the underlying asset) for a period of time in exchange for consideration.

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

The classification criteria in ASC 842 for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under ASC 840.

Under ASC 842, a lessee finance lease exists when any of the following criteria are met at lease commencement:

a. The lease transfers ownership of the underlying asset to the lessee by the end of the lease term.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

b. The lease grants the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

c. The lease term is for the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.

d. The present value of the sum of the lease payments and any residual value guaranteed by the lessee that is not already reflected in the lease payments in accordance with paragraph 842-10-30-5(f) equals or exceeds substantially all of the fair value of the underlying asset.

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

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

Finance Leases

The Hospital was obligated under finance leases for office and medical equipment that extend through 2022, and the chiller plant that extends through 2031, in the amounts of $23,703 and $27,793, respectively at fiscal years ended June 30, 2018 and 2017. Lease payments for the chiller plant include both fixed and variable payments. The variable payments are based upon consumption exceeding the threshold specified in the lease.

The Hospital considered the likelihood of exercising renewal or termination terms in measuring its right-of-use lease assets and lease liabilities. With the exception of leases for certain medical equipment that will extend its useful life by the end of the lease, the Hospital has included renewal periods in its assessment of lease terms. The right-of- use assets are amortized over their estimated useful lives.

The finance lease right-of-use assets and accumulated amortization for the fiscal years ended June 30 were as follows:

Right of Use Assets – Finance Lease	**2018**	**2017**
Right of use assets – Financing	$ 58,084	$ 57,199
Accumulated amortization	(35,798)	(31,385)
Right of use assets, net	**$ 22,286**	**$ 25,814**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Amortization expense for the fiscal years ended June 30, 2018 and 2017 was $5,093 and $5,147, respectively. The discount rates used in measuring the finance right-of-use assets and liabilities were the rates as explicitly stated in each lease.

At June 30, 2018, the future minimum lease payments under finance leases (with initial or remaining lease terms in excess of one year) were as follows:

Lease Obligations	**Financing Leases**
2019	$ 5,114
2020	3,490
2021	3,120
2022	2,634
2023	2,265
2024 and thereafter	20,485
Obligation, gross	**37,108**
Amounts representing interest rates from 6% to 8%	(13,405)
Total Lease Obligations, net	**$ 23,703**

At June 30, 2018, the minimum future lease scheduled interest payments under financing leases (with initial or remaining lease terms in excess of one year) for future years ending June 30, were as follows:

Lease Obligations - Interest	**Financing Leases**
2019	$ 1,738
2020	1,571
2021	1,442
2022	1,333
2023	1,240
2024 and thereafter	6,081
Total Lease Obligations - Interest	**$ 13,405**

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

Lease Expense	**2018**	**2017**
Finance lease expense:		
Amortization of right to use assets	$ 5,299	$ 6,698
Interest on lease liabilities	2,008	2,321
Total Lease Expense	**$ 7,307**	**$ 9,019**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Other Information	2018	2017
Cash paid for amounts included in the measurements of lease liabilities for finance leases:		
Financing cash flows	$ 5,614	$ 6,073
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	$ 1,397	$ 253
Weighted-average remaining lease term (in years):		
Finance leases	10.81	10.51
Weighted-average discount rate:		
Finance leases	7.84%	7.60%

Lease Income

Lessor Operating Leases

Under ASC 842-30-50-3, lessors are required to classify leases. The Hospital has assessed all contracts that convey control of its assets to third parties as lessor leases. Lessors recognize an unbilled lease receivable for their operating leases. Such treatment results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's Statement of Financial Position and is continuously depreciated.

The Hospital has operating leases for retail and commercial space for which rent payments are fixed at the time of lease commencement. The Hospital considered the likelihood of its tenants exercising renewal or termination terms in its leases, based upon prior renewals or extensions, sales and revenue forecasts, etc., in determining the ultimate term of the lease. Some tenants have the option of re-negotiating a new agreement upon the termination of the lease or extending the terms in the current lease for another couple of years or go on a month-to-month lease. Termination terms are explicitly stated in each lease agreements as both the lessor and lessee can exercise rights to terminate agreement. Lease payments are governed by the lease agreement and are generally fixed, although some lease agreements provide for payment escalations based on the Consumer Price Index (CPI). The Hospital only includes consideration for lease components in its determination of lease payments.

Hospital space is leased to physicians and a large private pharmacy. The Hospital's leases do not have any provisions for tenants to purchase the underlying asset being leased at the end of the lease term, or that provide for residual value guarantees.

The Hospital receives rental income under both fixed and month-to-month lease agreements. The total lease income received for fiscal years ended June 30, 2018 and 2017 was $1,575 and $1,606, respectively, and was reported within Other Income on the Statements of Operations and Changes in Net Assets (Deficit). The future minimum lease income on fixed leases for years ending June 30 was as follows:

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Future Minimum Lease Income	June 30
2019	$ 64
2020	64
2021	64
2022	64
2023	64
2024 and thereafter	21
Total Minimum Lease Income	**$ 341**

Note 13 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	2018	2017
District of Columbia issues:		
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 379	$ 420
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	12,084	12,084
2011B Revenue bonds 4.31% to 7.63% Serial due 2016 through 2036	16,541	17,126
Total bonds payable, gross	**$ 29,004**	**$ 29,630**
Bond premiums (discounts)	(546)	(570)
Bond issuance costs	(402)	(421)
Total bonds payable, net	**$ 28,056**	**$ 28,639**

(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. Howard allocated $640 of these bonds 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 $12,084 was allocated to the Hospital, and $65,065 of taxable revenue bonds

(Series 2011B), of which $16,540 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 5.00% 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 2016 and 2036. 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.

In fiscal year 2017, Howard entered into a Service Concession Agreement with Corvias Campus Living HU, LLC resulting in a bond defeasance for the 2011A Bonds, of which $2,082 has been allocated to the Hospital. The defeased bonds are deemed to be paid and no longer outstanding bonds of the District of Columbia. This is an extraordinary and unusual event and is presented as a non-cash operating activity on the Statements of Cash Flows and as income from defeased bonds above operating revenues under operating expenses on the Statements of Operations and Changes in Net Assets (Deficit).

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.

(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, 2018 and 2017, the estimated fair value was approximately $33,438 and $32,208, 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.

In 2015, 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 was $133,903 and was reported in Howard's endowment investments. There were no pledged securities at years ended June 30, 2018 or 2017.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

At June 30, 2018 and 2017, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 Revenue Bonds.

The 2011 Bond and Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2018.

Covenant	Instrument	Measurement Dates	Criteria
Debt Service Coverage Ratio	2011 Revenue Bonds	June 30 each year	1.10:1.00
Liquidity Ratio	Revolving Credit Agreement	Quarterly	$160 million

(5) *Scheduled Bond Repayments*

The scheduled principal repayments of bonds payable are as follows:

2019	$ 815
2020	1,267
2021	1,014
2022	367
2023	389
2024 and thereafter	25,152
Bonds Payable, gross	**29,004**
Bond premiums (discounts)	(546)
Bond issuance costs	(402)
Total Bonds Payable, net	**$ 28,056**

Note 14 Pension and Post-retirement Benefit Plans

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

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

During fiscal year 2017, there was a reduction to the life insurance benefits of future retirees for Howard plans which created a new prior service cost base of $8,635 to be recognized starting in fiscal year 2018. Howard stopped including the value of fully-insured premium payments in both employee contributions and benefits paid from plan because the non-class I post-65 retirees moved out of the Howard plan into an exchange. This had no impact on net obligations or net payments from the plan.

Savings Plan - The pension plans are supplemented 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 Voya 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 (Deficit) were $3,668 and $6,420 for fiscal years ended June 30, 2018 and 2017, respectively.

Effective July 1, 2010, the Savings Plan was modified such that the Hospital will automatically, upon hire, contribute 6% of any eligible employee's base pay, regardless of tenure or election into the Savings Plan. The Hospital will contribute a matching contribution of up to 2% of employee elected self-contributions. The Hospital recognizes a plan's overfunded or underfunded status as an asset or liability, with an offsetting adjustment to unrestricted net assets.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

The reconciliation of the Hospital's portion of the plan's funded status to amounts recognized in the financial statements at June 30 using a June 30 measurement date follows:

Retirement Benefits	**Pension**		**Medical and Life Insurance**	
	2018	**2017**	**2018**	**2017**
Change in net obligations:				
Projected benefit obligation at beginning of year	**195,628**	**205,571**	**11,523**	**15,624**
Service cost	-	-	64	223
Interest cost	7,707	7,776	454	603
Actuarial (gain) loss	(3,057)	(8,462)	(1,190)	(1,081)
Benefits paid	(10,523)	(9,257)	(709)	(962)
Medicare Part D subsidy	-	-	-	-
Employee contributions	-	-	117	179
Plan curtailments	-	-	-	-
Plan amendments	-	-	-	(3,063)
Projected benefit obligation at end of year	**$ 189,755**	$ **195,628**	**$ 10,259**	**$ 11,523**
Change in plan assets				
Fair value of plan assets at beginning of year	**155,598**	**156,724**	**-**	**-**
Actual return on plan assets	7,686	8,131	-	-
Employer contributions	3,246	-	591	783
Employee contributions	-	-	117	179
Medicare Part D subsidy	-	-	-	-
Benefits paid	(10,523)	(9,257)	(708)	(962)
Fair value of plan assets at end of year	**$ 156,007**	**$ 155,598**	**$ -**	**$ -**
Net obligation	**$ (33,748)**	**$ (40,030)**	**$ (10,259)**	**$ (11,523)**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets (deficit) at June 30 follows:

Retirement Benefits	Pension		Medical and Life Insurance	
	2018	**2017**	**2018**	**2017**
Recognition in Statements of Operations				
Amortization of prior service cost	100	100	(4,408)	(3,838)
Amortization of actuarial loss	2,129	2,347	458	581
Total amortization	**2,229**	**2,447**	**(3,950)**	**(3,257)**
Service cost	-	-	64	223
Interest cost	7,707	7,776	453	603
Expected return on plan assets	(9,000)	(9,125)	-	-
Curtailment (gain) loss	-	-	-	-
Recognized in operating expenses	**936**		**(3,433)**	
Amortization of prior service cost	(100)		4,408	
Amortization of actuarial loss	(2,129)	(2,347)	(458)	(581)
	(2,229)		**3,950**	
Net actuarial (gain) loss during the year	(1,744)		(1,190)	
New prior service cost rising during period	-	-	-	(3,063)
Total recognized in other changes in unrestricted net assets	**(3,973)**	**(9,916)**	**2,760**	**(887)**
Total recognized in Statements of Operations and Changes in Net Assets (Deficit)	**(3,037)**	**(8,818)**	**(673)**	**(3,318)**

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2018 and 2017:

Retirement Benefits	Pension		Medical and Life Insurance	
	2018	**2017**	**2018**	**2017**
Net actuarial loss	**$ (68,042)**	**$ (71,914)**	$ (3,353)	$ (5,001)
Prior service cost	(2,301)	(2,401)	5,043	9,451
Total	**$ (70,343)**	**$ (74,315)**	**$ 1,690**	**$ 4,450**

The Hospital's 2018 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 $2,399 and $(4,308), respectively.

Contributions to the pension plan of $3,246 and $0, were made in fiscal years ended June 30, 2018 and 2017, respectively. Contributions of $4,121 are expected to be paid to the pension plan during the fiscal year ended June 30, 2019.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for the years ended June 30 follows:

Actuarial Assumptions	Pension Benefits		Medical and Life Insurance	
	2018	2017	2018	2017
Discount rate	4.39%	4.05%	4.40%	4.05%
Expected return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase	-	-	3.50%	3.50%

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

Actuarial Assumptions	Pension Benefits		Medical and Life Insurance	
	2018	2017	2018	2017
Discount rate	4.05%	3.88%	4.05%	3.96%
Expected return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase				
To age 35	-	-	3.50%	3.50%
Thereafter	-	-	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, 2018 and 2017 (amounts in thousands)

The Hospital's plan assets were 28.8% of total plan assets in fiscal year 2018.
Pension plan investments allocated to the Hospital as of June 30, 2018 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 8,283	$ -	$ 8,283
Commingled Funds				
Emerging Market Equity (3)	-	2,077	-	2,077
International Equity-Developed (3)	-	27,232	-	27,232
Domestic Common Stock (3)	-	-	-	-
Commodity Inflation Hedging (8)	-	3,427	-	3,427
Common Stock (3)	15,611	-	-	15,611
Fixed Income				
Mortgage Backed Securities (2)	-	1,291	-	1,291
Corporate Bond (2)	-	14,517	-	14,517
Government Bond (2)	15,717	-	-	15,717
Hedge Fund				
Distressed Debt (4)	-	-	-	-
Credit Opportunities (4)	-	2,048	-	2,048
Equity Long/short (4)	-	2,877	-	2,877
Event Driven (4)	-	-	3	3
Global opportunities (4)	-	1,792	-	1,792
Multi-strategy (4)	-	-	1	1
Mutual Fund				
Emerging Market Equity Security (3)	2,500	-	-	2,500
Domestic Common Stock (3)	11,604	-	-	11,604
International Equity Security (3)	-	-	-	-
Domestic Fixed Income (2)	20,439	-	-	20,439
Private Equity and Venture Capital (4)	-	-	19,246	19,246
Real Estate (4)	-	-	7,952	7,952
Total assets	**$ 65,871**	**$ 63,544**	**$ 27,202**	**$ 156,617**
Liabilities:				
Financial Derivatives – Option Contracts	$ -	$ 71	$ -	$ 71
Total liabilities	**$ -**	**$ 71**	**$ -**	**$ 71**
Total pension plan investments	**$ 65,871**	**$ 63,615**	**$ 27,202**	**$ 156,688**
Operating asset not subjected to fair value reporting	8,821	-	-	8,821
Operating liabilities not subjected to fair value reporting	(9,502)	-	-	(9,502)
Total plan assets	**$ 65,190**	**$ 63,615**	**$ 27,202**	**$ 156,007**

Level 3 investments were 17% of total plan investments.

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

The Hospital's plan assets were 28.8% of total plan assets in fiscal year 2017.
Pension plan investments allocated to the Hospital as of June 30, 2017 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 1,762	$ -	$ 1,762
Common/Collective Trusts	-	-	-	-
Emerging Market Equity (3)	-	3,795	-	3,795
International Equity-Developed (3)	-	27,991	-	27,991
Commodity Inflation Hedging (8)	-	3,049	-	3,049
Common Stock (3)	14,932	-	-	14,932
Fixed Income	-	-	-	
Mortgage Backed Securities (2)	-	1,292	-	1,292
Corporate Bond (2)	-	13,194	-	13,194
Government Bond (2)	25,163	-	-	25,163
Hedge Fund	-	-	-	
Equity Long/short (4)	-	1,662	-	1,662
Global opportunities (4)	-	2,241	-	2,241
Multi-strategy (4)	-	-	13	13
Mutual Fund	-	-	-	
Emerging Market Equity Security (3)	5,526	-	-	5,526
Domestic Common Stock (3)	10,251	-	-	10,251
Domestic Fixed Income (2)	29,796	-	-	29,796
Private Equity and Venture Capital (4)	-	-	19,552	19,552
Real Estate (4)	-	-	4,568	4,568
Total assets	**$ 85,668**	**$ 54,986**	**$ 24,133**	**$ 164,787**
Liabilities:				
Financial Derivatives – Option Contracts	$ -	$ 196	$ -	$ 196
Total liabilities	$ -	$ 196	$ -	$ 196
Total pension plan investments	**$ 85,668**	**$ 55,182**	**$ 24,133**	**$ 164,983**
Operating asset not subjected to fair value reporting (9)	2,562	-	-	2,562
Operating liabilities not subjected to fair value reporting (9)	(11,947)	-	-	(11,947)
Total plan assets	**$ 76,283**	**$ 55,182**	**$ 24,133**	**$ 155,598**

Level 3 investments were 16% of total plan investments.

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.

(3) Common stocks are largely valued based on the last sales price for identical securities traded on a primary exchange. These investments are classified as Level 1. Securities that trade infrequently, or that have comparable traded assets, that trade in either active or inactive markets, are priced using available quotes and other market data that are observable as of the reporting date, are classified as Level 2. Investments in common/collective funds with underlying securities in common stock are classified as Level 2 because there is a readily determinable unit price and the units held can be redeemed in less than one month.

(4) Alternative investments include Howard's limited partnership interests, hedge funds, private equity and real estate 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 *ASC 820, Fair Value Measurement,* which governs the classification of certain investments with the option of net asset value redemption value as Level 2, the Hospital has classified qualifying investments in hedge funds and common/collective trusts as Level 2. These investments can be redeemed on a quarterly basis with a 30 to 90 days redemption notice period. Hedge funds and common/collective trusts with liquidation terms in excess of 90 days are classified as Level 3. Limited partnerships including private equity and real estate funds and other non-redeemable funds are categorized as Level 3. These investments cannot be redeemed or withdrawn prior to termination of the partnership. Instead, the distributions are received through liquidation of the underlying assets of the fund. No active market exists for these funds and their valuation is based on unobservable and/or significantly adjusted inputs using the best available

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

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

(5) Other assets represent the Hospital's beneficial interest in certain trust assets held third parties. The fair value of this interest has been measured using the income approach as there is no active principal market trading in this interest. This interest was valued using the quoted market value for the underlying marketable securities of the Trust discounted for expected future cash flows to the Hospital. These interests are classified as Level 3 assets as the reported fair values are based on a combination of observable and unobservable inputs.

(6) Assets and liabilities not subject to fair value reporting represent transactions that have been entered into but not settled by the reporting date of June 30.

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 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, 2018:

Changes in Level 3 Security Value year ended June 30, 2018	**Equity Private and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2017	$ 19,552	$ 14	$ 4,567	$ 24,133
Gain and Loss (Realized and Unrealized)	1,801	(10)	1,087	2,878
Purchases	2,720	-	3,799	6,519
Transfer Out and Sales	(4,836)	-	(1,504)	(6,340)
Balance June 30, 2018	**$ 19,237**	**$ 4**	**$ 7,949**	**$ 27,190**
Change in unrealized investments held	**$ 658**	**$ (5)**	**$ 616**	**$ 1,269**

For Fiscal Years ended June 30, 2018 and 2017 (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, 2017.

Changes in Level 3 Security Value year ended June 30, 2017	**Equity Private and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2016	$ 20,973	$ 17	$ 3,160	$ 24,150
Gain and Loss (Realized and Unrealized)	3,067	(3)	418	3,482
Purchases	1,535	-	2,312	3,847
Transfer Out and Sales	(6,023)	-	(1,323)	(7,346)
Balance June 30, 2017	**$ 19,552**	**$ 14**	**$ 4,567**	**$ 24,133**
Change in unrealized investments held	**$ 16**	**$ (7)**	**$ 126**	**$ 135**

Pension Plan Investment Commitments – The Hospital's investment commitments as of June 30, 2018 and 2017 are summarized below. Additionally, some of these investments do not readily as ascertainable market values and may be subject to withdrawal restrictions and are less liquid than the Hospital's other investments.

Investments as of June 30, 2018	**Fair Value**	**Unfunded Commitments**	**Redemption/ Withdrawal Frequency**	**Redemption / Withdrawal Notice Period**
Hedge Funds	$ 7,008	$ -	Monthly/Annually	45-90 days
Real Estate Funds	$ 7,952	$ 8,101	-	2-10 years
Common/Collective Trusts	$ 32,742	$ -	Monthly	-
Limited Partnerships	$ 19,246	$ 8,736	-	≤10 years

Investments as of June 30, 2017	**Fair Value**	**Unfunded Commitments**	**Redemption/ Withdrawal Frequency**	**Redemption / Withdrawal Notice Period**
Hedge Funds	$ 3,921	$ -	Monthly/Annually	45-90 days
Real Estate Funds	$ 4,568	$ 2,236	-	2-5 years
Common/Collective Trusts	$ 34,840	$ -	Monthly	-
Limited Partnerships	$ 19,552	$ 6,810	-	≤ 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, 2018 and 2017 (amounts in thousands)

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

Pension Plan Asset Allocation	2018	2017	Allowable Range
Mid-Large Cap U.S. Equity	9.6%	10.2%	7-23%
Small Cap U.S. Equity	3.8%	2.6%	1-5%
International Equity - Developed	16.9%	18.2%	7-17%
Private Equity/Venture Capital	11.7%	11.7%	2-20%
Hedge Funds	4.5%	2.5%	1-5%
Inflation Hedging	6.9%	8.9%	1-5%
Emerging Markets Equity	3.4%	6.1%	2-8%
Real Estate	4.5%	0.0%	3-11%
Liability Hedging Assets	36.9%	39.3%	25-45%
Cash and Cash Equivalents	1.8%	0.5%	0-5%
Total	**100%**	**100%**	

The trend rate for growth in health care costs, used in the calculation for fiscal year 2018 was 6.69%. This growth rate was assumed to decrease gradually to 4.50% in 2038 and to remain at this level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

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

Expected Future Benefit Payments	Pension Benefits	Medical and Life Insurance		
		Excluding Subsidy	Subsidy Payments	Net of Subsidy
Years ending June 30:				
2019	$ 11,428	$ 614	$ -	$ 614
2020	11,697	629	-	629
2021	11,809	639	-	639
2022	11,983	651	-	651
2023	12,149	639	-	639
2024-2028	61,354	3,295	-	3,295
Total	**$ 120,420**	**$ 6,467**	**$ -**	**$ 6,467**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

The mortality retirement rates base table used MRP-2007 (Actuary adaption of, the Society of Actuaries' RP2014 table). If eligible, participants were assumed to retire according to the following schedule:

Retirement Age	Assumed Rate of Retirement
55 - 60	5%
61 - 63	12%
64	16%
65	25%
66 - 69	16%
70+	100%

Note 15 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 1,207 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

Note 16 Related Party Transactions

During the normal course of business, Howard 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, Howard'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

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

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

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.
Certain 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 are shown in the table below:

Interdivisional Transactions - Operating and Capital	**2018**	**2017**
Operating charges allocated from the Hospital to Howard:		
Medical malpractice	$ 2,030	$ 2,440
Facilities	676	659
Administrative services	-	-
Physicians salaries	(14,454)	(14,157)
Total charges allocated from the Hospital to Howard	**(11,748)**	**(11,058)**
Operating charges allocated to the Hospital from Howard:		
Employee tuition remission	(1,463)	(1,670)
Utilities	(3,547)	(3,683)
Other	(4,193)	(7,478)
Total charges allocated to the Hospital from Howard	**(9,203)**	**(12,831)**
Net charges allocated from the Hospital/(allocated to the Hospital):	**(20,951)**	**(23,889)**
Federal appropriation allocated to the Hospital from Howard	27,325	27,500
Total operating support provided from Howard to the Hospital	**6,374**	**3,611**
Financing support provided from Howard to the Hospital:		
Acquisition of equipment under finance leases	-	-
Finance lease payments made by the Hospital	(5,427)	(5,315)
Total financing support provided to the Hospital	**(5,427)**	**(5,315)**
Total support provided to the Hospital	**$ 947**	**$ (1,704)**

For Fiscal Years ended June 30, 2018 and 2017 (amounts in thousands)

Interdivisional balances on the Statements of Financial Position as of June 30 were as follows:

Interdivisional Balances - Statements of Financial Position	2018	2017
Current assets	$ -	$ -
Current liabilities	(805)	(805)
Long term liabilities	(25,521)	(28,571)
Total interdivisional balances	**$ (26,326)**	**$ (29,376)**

Changes in interdivisional balances for the years ended June 30 were as follows:

Interdivisional Transactions - Statements of Financial Position	2018	2017
Short term financing	$ -	$ -
Bond transactions, net	-	(5,282)
Long term financing	2,630	2,930
Net charges recovered from Howard/(allocated to the Hospital)	420	11,181
Net activity during the year	3,050	8,829
Balance at beginning of the year	(29,376)	(38,205)
Balance at end of the year	**$ (26,326)**	**$ (29,376)**

The table below reflects Hospital assets and liabilities that were allocated from Howard:

Interdivisional Balances - Asset/Liability Allocations	2018	2017
Assets:		
Deposits with trustees	$ 2,372	$ 2,131
Pension assets	156,007	155,598
Total assets	**$ 158,379**	**$ 157,729**
Liabilities:		
Reserves for self-insured liabilities	$ 58,120	$ 65,984
Finance lease obligations	23,703	27,793
Bonds payable, net	28,056	28,639
Total liabilities	**$ 109,879**	**$ 122,416**

Note 17 Howard University Dialysis Center

Howard, 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 ARS 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, 2018 and 2017 (amounts in thousands)

The Statement of Financial Position for the LLC was as follows as of June 30.

HOWARD DIALYSIS CENTER, LLC STATEMENTS OF FINANCIAL POSITION	**2018**	**2017**
Total Assets	$ 10,625	$ 11,389
Total Liabilities	$ 924	$ 1,074
Equity		
Partner	5,086	5,586
Retained earning	4,615	4,729
Total Equity	**$ 9,701**	**$ 10,315**
ARA interest	$ 4,948	$ 5,261
Howard interest	$ 4,753	$ 5,054

Note 18 Subsequent Events

On October 12, 2018 S&P Global Ratings lowered its long-term and underlying ratings on Howard's Series 2011A and 2011B bonds from BBB to BBB-.

The rating actions reflects Howard's placement on Heightened Cash Monitoring 2 (HCM2) status by the U.S. Department of Education (DOE) so that it can closely monitor the institution's federal financial aid management.

The Hospital performed an evaluation of subsequent events through February 12, 2019, which is the date of the financial statements were issued, noting no additional events that affect the financial statements as of June 30, 2018.