The Howard University Hospital

(an unincorporated operating segment of The Howard University)
Financial Statements
June 30, 2017, 2016, and 2015

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Independent Auditor's Report

Board of Trustees
The Howard University
Washington, DC

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, 2017, 2016 and 2015, and the related statements of operations, changes in net assets (deficit) 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, 2017, 2016, and 2015, 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.

Other Matters

As described in Note 1, The Howard University Hospital is an unincorporated operating segment of The Howard University, as such these financial statements should be read in conjunction with the consolidated financial statements of The Howard University for the fiscal years ended June 30, 2017, 2016, and 2015.

BDO USA, LLP

December 11, 2017

Statements of Financial Position **As of June 30:** *(in thousands)*	**2017**	**2016**	**2015**
Assets:			
Current assets			
Cash and cash equivalents	$ 13,253	$ 12,444	$ 14,648
Deposits with trustees	401	348	137
Patient receivable, net of allowance (Note 6)	37,364	39,351	26,601
Inventories and prepaid	5,521	5,233	4,913
Other receivables	1,892	5,371	1,796
Total current assets	**58,431**	**62,747**	**48,095**
Non-current assets			
Deposits with trustees	1,730	1,380	1,380
Third party and insurance recoveries, net	13,050	13,440	10,723
Finance right of use assets, net	25,814	31,700	35,954
Long-lived assets, net	56,456	66,765	77,771
Other non-current assets, net	5,244	5,778	5,827
Total assets	**$ 160,725**	**$ 181,810**	**$ 179,750**
Liabilities:			
Current liabilities			
Accounts payable and accrued expenses	$ 25,843	$ 31,276	$ 31,803
Accrued postretirement benefits	685	777	812
Reserve for self-insured liabilities	13,835	3,818	3,410
Bonds payable, net	626	464	37
Finance lease obligations	5,203	6,073	7,021
Due to Howard University	805	805	805
Other liabilities	549	3,146	1,028
Total current liabilities	**47,546**	**46,359**	**44,916**
Non-current liabilities			
Accrued postretirement benefits	10,838	14,847	14,626
Underfunded defined benefit pension plan	40,030	48,847	36,923
Reserve for self-insured liabilities	52,148	67,110	71,057
Bonds payable, net	28,013	31,208	31,592
Finance lease obligations	22,590	27,540	32,966
Due to Howard University	28,571	37,400	37,992
Other liabilities	-	2,616	2,538
Total liabilities	**229,736**	**275,927**	**272,610**
Net assets (deficit):			
Unrestricted	(114,011)	(139,117)	(137,860)
Inter-divisional transfer	45,000	45,000	45,000
Total net assets (deficit)	**(69,011)**	**(94,117)**	**(92,860)**
Total liabilities and net assets (deficit)	**$ 160,725**	**$ 181,810**	**$ 179,750**

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)*	**2017**	**2016**	**2015**
Patient service revenue, net of contractual allowances, charity care and discounts	$ 269,743	$ 247,579	$ 253,787
Less: Bad debt expense	38,245	19,504	22,872
Total patient service revenue, net	**231,498**	**228,075**	**230,915**
Federal appropriation	27,500	27,046	26,021
Other income	6,210	10,076	7,216
Total operating revenues	**265,208**	**265,197**	**264,152**
Salaries and wages	113,247	121,909	133,015
Employee benefits other than retirement plans	29,970	22,625	30,387
Retirement plans, including amortization of actuarial losses previously recognized as non-operating items ($810), ($2,125) and ($1,873)	5,087	498	5,531
Utilities and telecommunications	8,821	7,896	8,805
Medical and office supplies	20,700	21,351	28,471
Repairs and maintenance	8,101	10,494	11,208
Food service costs	2,178	2,300	3,255
Insurance and risk management	12,003	6,149	11,236
Professional and administrative services	35,869	33,893	30,253
Interest expense	4,024	4,415	4,799
Depreciation and amortization	13,582	14,945	17,986
Total operating expenses	**253,582**	**246,475**	**284,946**
Income from defeased bonds (Note 14)	2,082	-	-
Operating revenues over (under) operating expenses	**13,708**	**18,722**	**(20,794)**
Restructuring costs (Note 4)	-	-	(9,266)
Realized investment income	589	399	886
Excess (deficit) of revenues under expenses	**14,297**	**19,121**	**(29,174)**
Change in funded status of defined benefit pension plan	9,916	(13,488)	(9,460)
Change in obligation for post retirement benefit plan	893	(6,890)	(3,193)
Change in net assets (deficit)	**$ 25,106**	**$ (1,257)**	**$ (41,827)**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows **For Fiscal Years Ended June 30:** *(in thousands)*	**2017**	**2016**	**2015**
Cash flows from operating activities			
Change in net assets (deficit)	**$ 25,106**	**$ (1,257)**	**$ (41,827)**
Adjustment to reconcile change in net assets (deficit) to net cash and cash equivalents provided by operating activities:			
Non-operating activities	(10,809)	20,378	12,653
Non-cash operating activities:			
Depreciation and amortization	13,582	14,945	17,986
Loss on sale/disposal of long-lived assets	1,210	-	-
Change and/or remeasurement of leases	3,567	-	-
Bond discount amortization	24	24	24
Bond issuance costs	19	19	19
Bond defeasance	(2,082)	-	-
Retirement plan amortization	(810)	(2,125)	(1,873)
Non-operating loss (gains) from joint venture	534	49	(301)
Changes in net assets adjusted for non-cash and non-operating items	**30,341**	**32,033**	**(13,319)**
Change in receivables	5,856	(19,042)	19,368
Change in inventory, prepaid expenses and other assets	(288)	(344)	2,699
Change in accounts payable and accrued expenses	(6,732)	(6,670)	(13,318)
Change in reserve for self-insured liabilities	(4,945)	(3,539)	1,564
Change in other liabilities	(5,213)	2,196	254
Net cash and cash equivalents provided by (used in) operating activities	**19,019**	**4,634**	**(2,752)**
Cash flows from investing activities			
Purchases of investments	-	(211)	-
Proceeds from sales of investments	(403)	-	279
Purchases and renovations of long-lived assets	(1,911)	(332)	(1,747)
Net cash and cash equivalents used in investing activities	**(2,314)**	**(543)**	**(1,468)**
Cash flows from financing activities			
Payments on bonds payable	(994)	-	(35)
Financing leases (payments) receipts, net	(6,073)	(5,703)	(6,142)
Change in due to (from) Howard University	(8,829)	(592)	20,775
Net cash and cash equivalents (used in) provided by financing activities	**(15,896)**	**(6,295)**	**14,598**
Net increase (decrease) in cash and cash equivalents	**809**	**(2,204)**	**10,378**
Cash and cash equivalents at beginning of year	12,444	14,648	4,270
Cash and cash equivalents at end of year	**$ 13,253**	**$ 12,444**	**$ 14,648**
Supplemental cash flow information:			
Net cash paid for interest	**$ 1,831**	**$ 2,276**	**$ 4,799**
Supplemental non-cash investing information:			
Acquisition of equipment under financing leases, net	**$ 253**	**$ 2,933**	**$ 9,579**

The accompanying notes are an integral part of these financial statements

Note 1 Summary of Significant Accounting Policies

(a) *General*

The Howard University Hospital (the "Hospital") is a not-for-profit hospital located in Washington, DC, providing inpatient, outpatient, and emergency care services for residents of the District of Columbia (the "District"). The Hospital operates as an unincorporated operating segment of The Howard University ("Howard"), which is a private, nonprofit institution of higher education (the "University"). The Hospital is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Starting in October 2014, Management engaged the California-based Paladin Healthcare Capital, LLC ("Paladin") to provide management services to oversee all the hospital operations. The term of the contract is five years. Their services include reengineering and transforming processes to enhance operational efficiency. Howard University has committed to funding the Hospital as required to meet obligations and continue to operate through December 31, 2018.

(b) *Income Taxes*

The principal operations of the Hospital are recognized as exempt from income tax under the applicable income tax regulations of the Internal Revenue Code and the District. The Hospital's operating activities are included in the University's Form 990. The Hospital does not have any uncertain tax positions as of June 30, 2017, 2016 and 2015.

(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; accumulated depreciation related to long-lived assets and investments whose fair values are not readily determinable; and the adequacy of reserves for professional liabilities; pension and post-retirement benefits; self-insured health benefits; self-insured workers' compensation; 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 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, the University entered into a Service Concession Agreement resulting in a bond defeasance for the 2011A Bonds. See Note 14 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 2017, 2016, and 2015, the Hospital has debt issuance costs related to the 2010, 2011A and 2011B bonds of $19 per year, as shown in the Statements of Cash Flows. In fiscal year 2017, the Hospital adopted the new principle and has reclassed 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 13 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, 2017, 2016, and 2015, the Hospital did not have any temporarily restricted or permanently restricted net assets.

(g) ***Excess (Deficit) of Revenues Over (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 gains (loss) on investments, income from defeased bonds, 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. 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, 2017, 2016, and 2015, respectively, the Hospital received approximately 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, 2017, 2016, and 2015 (amounts in thousands)

Management periodically reviews the portfolio of assets held by trustees 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 Statements of Operations and Changes in Net Assets (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, 2017, 2016, and 2015.

(k) ***Inventories***

Inventories consist primarily of medical supplies and pharmaceuticals, and 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, 2017, 2016, and 2015 was $0, $0, and $81, 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 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, 2017, 2016, and 2015.

(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) ***Change in Accounting Estimate***

As a result of a new study, Howard revised the estimate of its liability related to the abatement of asbestos. See Note 12 for a description of the asset retirement costs and obligation.

(p) ***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 reported on a discounted basis.

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

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

(r) ***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, 2017, 2016, and 2015, the obligation was $1,866, $2,578 and $3,004, respectively.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

(s) ***Functional Expenses***

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

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

Functional expenses	**2017**		**2016**		**2015**	
Patient care	$	210,177	$	211,187	$	243,328
Institutional support		43,405		35,288		41,618
Total	**$**	**253,582**	**$**	**246,475**	**$**	**284,946**

(t) ***Recent Accounting Pronouncements***

In July 2017, the FASB issued *ASU 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 2018.

In March 2017, the FASB issued *ASU 2017-07 (Topic 715), Compensation—Retirement Benefits,* to provide guidance on the presentation of net benefit cost in the statements of operations and on the components eligible for capitalization in assets. The ASU 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 Statements of Operations are 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 2017-05 (Topic 610-20), Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, to* provide clarity on 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 2017-05 to determine whether it applies to its operations.

In January 2017, the FASB issued *ASU 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. The ASU 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 2017-02 to determine whether it applies to its operations.

In August 2016, the FASB issued *ASU 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 ASU provides 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 2016-15 and determined it is applicable to its operations. This ASU will be adopted in fiscal year 2018.

In August 2016, the FASB issued *ASU 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 ASU 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. The Hospital is currently evaluating and assessing ASU 2016-14 to determine whether it applies to its operations.

In January 2016, the FASB issued *ASU 2016-01 (Subtopic 825-10), Financial Instruments—Overall.* The ASU provides guidance 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 ASU affects all entities that hold financial assets or owe financial liabilities. The amendments in this ASU make targeted improvements to 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 balance sheet, (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 balance sheet 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 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 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 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 2015-04 and determined it is applicable to its operations. This new pronouncement will be adopted in fiscal year 2018.

In September 2014, the FASB issued *ASU 2014-15*, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The amendments in ASU 2014-15 define when and how companies are required to disclose going concern uncertainties, which must be evaluated each period. Specifically, the ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). If substantial doubt exists, certain disclosures are required; the extent of those disclosures depends on an evaluation of management's plans (if any) to mitigate the going concern uncertainty. The new standard applies prospectively to annual periods ending after December 15, 2016. Hospital management has evaluated the disclosure effect the provisions of ASU 2014-15 has on the Hospital's financial statements. Adoption has resulted in an amendment to Note 1 – Summary of Significant Accounting Policies – (a) General.

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

(u) ***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 assets (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 were $4,200, $5,356 and $5,194 for fiscal years ended June 30, 2017, 2016 and 2015, respectively. Total uncompensated care costs under all of the Hospital's clinical services, which includes bad debt write offs and charity care, for fiscal years ended June 30, 2017, 2016, and 2015 were $14,436, $14,446 and $14,870, respectively.

Note 3 Insurance and Risk Management

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

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

Note 4 Restructuring Costs

In fiscal year 2015, while experiencing significant financial deficits, the Hospital engaged several firms to assess operations and recommend changes in the current processes and structure. Decisions about appropriate workforce size and skill requirements, changes in management structure, and functions consolidation, resulted in a restructuring charge incurred in the process of early retirement incentive program and reductions in force. The charge against earnings in the fiscal year for known and estimated employee voluntary/involuntary termination costs were pursuant to a duly authorized plan. Restructuring charges are considered one-time non-recurring operating expenses, and are listed separately on the Statements of Operations to call attention to the special nature of these charges. The costs incurred are recognized as non-operating expenses in the Statements of Operations. The Hospital incurred $0, $0, and $9,266 in restructuring costs for the years ended June 30, 2017, 2016 and 2015, respectively.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Note 5 Concentration of Credit Risk

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

Payor Mix	**2017**	**2016**	**2015**
Medicare	12%	12%	17%
Medicaid	42%	47%	47%
Blue Cross	5%	3%	5%
Other third-party payors	17%	16%	13%
Patients	24%	22%	18%
	100%	**100%**	**100%**

Note 6 Receivables

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

Receivables	**2017**	**2016**	**2015**
Patients	$ 73,679	$ 66,000	$ 59,827
Third-party payors	13,050	7,423	4,706
Insurance claims	-	7,526	7,526
Other	1,892	5,371	1,796
Totals	**$ 88,621**	**$ 86,320**	**$ 73,855**

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

Allowance for Doubtful Receivables	**2017**	**2016**	**2015**
Patients	$ 36,315	$ 26,649	$ 33,226
Insurance claims	-	1,509	1,509
Totals	**$ 36,315**	**$ 28,158**	**$ 34,735**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Provision for Bad Debt	2017	2016	2015
Patients	$ 38,245	$ 19,504	$ 22,872
Insurance claims	-	-	-
Totals	**$ 38,245**	**$ 19,504**	**$ 22,872**

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

The Hospital's allowance for doubtful accounts for self-pay patients was $36,315, $26,649, and $33,226 for the periods ended June 30, 2017, 2016 and 2015, respectively. In addition, the Hospital's self-pay write-offs were $21,962, $21,488, and $28,589 for the periods ended June 30, 2017, 2016 and 2015, respectively. 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 was $0 for fiscal years ended June 30, 2017, 2016 and 2015 as 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).

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Note 7 Accounts Payable and Accrued Expenses

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

Accounts Payable and Accrued Expenses	2017	2016	2015
Vendor invoices	$ 17,295	$ 22,073	$ 22,306
Accrued salaries and wages	5,942	5,565	5,519
Accrued employee benefits	739	1,060	974
Accrued annual leave	1,867	2,578	3,004
Total	**$ 25,843**	**$ 31,276**	**$ 31,803**

Note 8 Deposits with Trustees and Self-insured Liabilities

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

	Dedicated Assets			Estimated Liabilities		
	2017	2016	2015	2017	2016	2015
Debt service reserve fund	$ 1,730	$ 1,380	$ 1,380	NA	NA	NA
Professional and general	-	15	16	$ 53,975	$ 59,127	$ 55,671
Workers' compensation	9	9	10	10,548	10,486	16,942
Health insurance	392	324	111	1,460	1,315	1,854
Total	**$ 2,131**	**$ 1,728**	**$ 1,517**	**$ 65,983**	**$ 70,928**	**$ 74,467**

NA = Not applicable

(a) *Debt Service Reserve Fund*

As required by the 2011 Revenue Bonds, the Hospital maintains a debt service reserve fund in an amount equal to or greater than the debt service fund requirement of $12,634 for all fiscal years reported. The portion of this fund allocated to the Hospital in fiscal years ended June 30, 2017, 2016, and 2015 was $1,730, $1,380, and $1,380, respectively. The assets in the debt service reserve fund consist primarily of cash, fixed income investments 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 that have been asserted against the Hospital and certain faculty physicians are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2017. It is the opinion of management based on the advice of actuaries and legal counsel that the estimated malpractice costs accrued at June 30, 2017, 2016, and 2015 of approximately $53,975, $59,127, and $55,671, respectively, are adequate to provide for losses resulting from probable asserted and unasserted claims, and pending or threatened litigation. There was no discount reflected at June 30, 2017, 2016, and 2015.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Professional Liability	2017	2016	2015
Beginning Balance	$ 59,127	$ 55,671	$ 54,365
Malpractice claims expense	6,081	5,176	13,667
Settlement payments	(11,233)	(1,720)	(12,361)
Ending Balance	**$ 53,975**	**$ 59,127**	**$ 55,671**

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

The University has established a revocable trust fund to partially provide for the satisfaction of its liability under applicable workers' compensation laws and for the care and security of its employees. The assets in the workers' compensation trust fund consists of U.S. Treasury bills and obligations, as well as domestic and foreign corporate bonds. As of June 30, 2017, workers' compensation liabilities are being satisfied as claims arise. The University also maintains $7,972 in letters of credit, which serve as collateral for specific insurance carriers. These letters of credit are secured by the University's multi-bank credit agreement. The University is self-insured for workers' compensation claims up to per occurrence retention of $500. The excess is covered through commercial insurance.

For fiscal years ended June 30, 2017, 2016, and 2015 expenses related to workers' compensation were $4,348, $4,526, and $1,933, respectively and were reflected in employee benefits.

The total gross liability for future workers' compensation liability claims was approximately $19,749, $18,175, and $16,942 at June 30, 2017, 2016 and 2015, 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 $10,548, $10,486, and $16,942, at June 30, 2017, 2016, and 2015, respectively. Estimated claims for which payments will be covered under existing insurance policies were $9,201, $7,689, and $0 at June 30, 2017, 2016 and 2015, respectively, net of allowances for uncollectible amounts and were reflected on the Statements of Financial Position in third party and insurance recoveries, net.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

(d) ***Health Insurance***

The University established a revocable self-insured trust fund for the purpose of funding group health benefits for its employees. The assets, held by the University, consist primarily of investments in money market funds. Deposits to the fund are amounts withheld from employees' salaries and wages and the Hospital's contributions based on estimates established by the claims administrator. Disbursements from the fund are made in accordance with the payment plan established with the claims administrator. The total estimated liability for asserted and unasserted probable Hospital claims at June 30, 2017, 2016, and 2015 was approximately $1,460, $1,315, and $1,854, respectively.

Note 9 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 drivers are observable in active markets either directly or indirectly.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are not observable.

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

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			
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**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Fair Value as of June 30, 2015	Level 1	Level 2	Total
Assets:			
Cash and Cash Equivalents (1)	$ 14,648	$ -	$ 14,648
Deposits with Trustees			
Cash and Cash Equivalent (1)	121	-	121
Money Market Fund (1)	-	1,396	1,396
Total Asset (non investment)	**$ 14,769**	**$ 1,396**	**$ 16,165**

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 statements of financial position as cash and cash equivalents approximate fair value because of the short maturities of those instruments.

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

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

	2017		2016		2015	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Assets:						
Cash and Cash Equivalents	$ 13,253	$ 13,253	$ 12,444	$ 12,444	$ 14,648	$ 14,648
Deposits with Trustees	$ 2,131	$ 2,131	$ 1,728	$ 1,728	$ 1,517	$ 1,517
Third-Party and Insurance Recoveries	$ 13,050	$ 13,050	$ 7,423	$ 7,423	$ 4,706	$ 4,706
Liabilities:						
Bonds Payable, gross	$ 29,630	$ 32,208	$ 32,706	$ 34,897	$ 32,706	$ 34,712

Note 10 Net Patient Service Revenue

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

(a) *Medicare*

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, 2017, 2016, and 2015, the Hospital received Medicare revenues attributable to DSH of $11,091, $9, 990, and $8,644, respectively.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

(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, 2017, 2016, and 2015, the Hospital received Medicaid revenues attributable to DSH of $36,171, $27,961 and $43,262, 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.

(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	**2017**	**2016**	**2015**
Medicare	$ 96,478	$ 67,951	$ 144,977
Medicaid	364,298	138,306	282,375
Blue Cross and others	153,523	359,818	147,386
Gross Revenues	**614,299**	**566,075**	**574,738**
Third- party payor settlement revenue	63,702	46,637	58,716
Contractual allowances and discounts	(399,246)	(353,641)	(367,391)
Charity care services	(9,012)	(11,492)	(12,276)
Bad debt	(38,245)	(19,504)	(22,872)
Total Net Patient Service Revenue	**$ 231,498**	**$ 228,075**	**$ 230,915**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Note 11 Estimated Third-Party Settlements

Certain services rendered by the Hospital are reimbursed by several third-party payors at cost, based upon cost reports filed after year-end. Contractual allowances are recorded based upon preliminary estimates of reimbursable costs. Net patient service revenue recorded under cost reimbursement agreements for the current and prior years is subject to audit and retroactive adjustments by significant third-party payors (Medicare and Medicaid) for the years 2015 through 2017.

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase to net patient service revenues of approximately, $9,364, $7,961 and $8,764 for the years ended June 30, 2017, 2016, and 2015, respectively. Components of third-party settlement revenues for the fiscal years ended June 30 were as follows:

Third-party settlement revenue	**2017**	**2016**	**2015**
Medicare pass-through	$ 11,091	$ 9,990	$ 8,644
Disproportionate Share Hospital	36,171	27,961	43,262
Graduate Medical Education	6,793	6,239	6,973
Other	9,647	2,447	(163)
Total third-party settlement revenue	**$ 63,702**	**$ 46,637**	**$ 58,716**

Note 12 Long-Lived Assets, net

Components of long-lived assets as of June 30 were as follows:

Long-lived assets, net	**2017**	**2016**	**2015**
Land and land improvements	$ 5,383	$ 5,297	$ 5,297
Buildings and building improvements	152,687	153,463	153,463
Furniture and equipment	143,390	142,582	142,479
Software and computer hardware	41,506	41,497	41,213
Construction in progress	144	1,186	1,147
Long-lived assets, gross	343,110	344,025	343,599
Accumulated depreciation	(286,654)	(277,260)	(265,828)
Long-lived assets, net	**$ 56,456**	**$ 66,765**	**$ 77,771**

Depreciation expense for the fiscal years ended June 30, 2017, 2016, and 2015 was $8,435, $11,384, and $12,260, respectively.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Asset retirement costs and obligations are reported in long-lived assets and other liabilities in the Statements of Financial Position. The costs for the reporting periods ended June 30 were as follows:

Asset Retirement Costs and Obligations	**2017**	**2016**	**2015**
Asset retirement costs	$ -	$ 969	$ 969
Accumulated depreciation	$ -	$ 880	$ 809
Asset retirement obligation	$ -	$ 2,616	$ 2,538

An asset retirement obligation was recorded to comply with FIN 47 (prior to the issuance of ASC 410). A recent study was performed to review the documentation and methodology used to establish the remediation liability, which determined the liability does not qualify for ASC 410 treatment and is considered a general liability. Accordingly, the net effect of $2,527, which reduces the liability and related costs and depreciation to zero, has been recorded in professional and administrative expenses in the Statements of Operations and Changes in Net Assets (Deficit) in fiscal year 2017.

Note 13 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.

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 2020, and the chiller plant that extends through 2031, in the amounts of $27,793, $33,613, and $39,987, respectively at fiscal years ended June 30, 2017, 2016, and 2015. 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.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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	**2017**	**2016**	**2015**
Right of use assets – financing	$ 57,199	$ 56,945	$ 54,012
Accumulated amortization	(31,385)	(25,245)	(18,058)
Right of use assets, net	$ 25,814	$ 31,700	$ 35,954

Amortization expense for the fiscal years ended June 30, 2017, 2016, and 2015 was $5,147, $3,561, and $5,726, 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, 2017, 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**
2018	$ 7,162
2019	4,709
2020	3,085
2021	3,064
2022	2,486
2023 and thereafter	22,529
Obligation, gross	43,035
Amounts representing interest rates	(15,242)
Total Lease Obligations, net	**$ 27,793**

At June 30, 2017, 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**
2018	$ 1,959
2019	1,676
2020	1,531
2021	1,429
2022	1,327
2023 and thereafter	7,320
Total Lease Obligations - Interest	**$ 15,242**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Lease Expense	**2017**	**2016**	**2015**
Finance lease expense:			
Amortization of right to use assets	$ 5,147	$ 3,561	$ 5,726
Interest on lease liabilities	2,321	2,746	2,423
Total Lease Expense	**$ 7,468**	**$ 6,307**	**$ 8,149**

Other Information	**2017**	**2016**	**2015**
Cash paid for amounts included in the measurements of lease liabilities for finance leases:			
Financing cash flows	$ 8,394	$ 9,767	$ 5,787
Right of use (ROU) assets obtained in exchange for lease liabilities:			
Finance leases	$ 253	$ 2,933	$ 9,579
Weighted-average remaining lease term (in years):			
Finance leases	10.51	10.24	10.19
Weighted-average discount rate:			
Finance leases	7.60%	7.35%	7.16%

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.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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, 2017, 2016, and 2015 was $1,606, $1,601 and $1,649, 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:

Future Minimum Lease Income	**June 30**
2018	$ 64
2019	64
2020	64
2021	64
2022	64
2023 and thereafter	85
Total Minimum Lease Income	**$ 405**

Note 14 Bonds Payable

(a) *Bonds Payable*

The Hospital was 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 were as follows:

Bonds Payable	**2017**	**2016**	**2015**
District of Columbia issues:			
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 420	$ 495	$ 495
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	12,084	14,166	14,166
2011B Revenue bonds 4.31% to 7.63% Serial due 2016 through 2036	17,126	18,045	18,045
Total bonds payable, gross	**$ 29,630**	**$ 32,706**	**$ 32,706**
Bond premiums (discounts)	(570)	(594)	(618)
Bond issuance costs	(421)	(440)	(459)
Total bonds payable, net	**$ 28,639**	**$ 31,672**	**$ 31,629**

(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 $14,166 was allocated to the Hospital, and $65,065 of taxable revenue bonds (Series 2011B), of which $18,045 was allocated to the Hospital, to refund the Series 1998 and Series 2006 Bonds and to finance new capital improvements. The interest rate on the tax-exempt bonds range from 5.00% 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.

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

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

The estimated fair value of the Hospital's bond allocation is determined based on quoted market prices. At June 30, 2017, 2016, and 2015, the estimated fair value was approximately $32,208, $34,897, and $34,712, 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, 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, 2017 or 2016.

At June 30, 2017, 2016, and 2015, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 Revenue Bonds and the Howard Property Loan. At June 30, 2017, 2016, and 2015, Howard was compliant with the Liquidity Ratio measurement for the Multi-bank Credit Agreement. The Debt Service Coverage Ratio measurement requirement was removed for fiscal year 2015.

The 2011 Bond and Revolving Credit Agreement contain restrictive financial covenants as summarized in the table below as of June 30, 2017.

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

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

(5) *Scheduled Bond Repayments*

The scheduled principal repayments of bonds payable were as follows:

Bonds Payable Maturities	**June 30:**
2018	$ 626
2019	815
2020	1,267
2021	1,014
2022	367
2023 and thereafter	25,541
Bonds Payable, gross	29,630
Bond premiums (discounts)	(570)
Bond issuance costs	(421)
Total Bonds Payable, net	**$ 28,639**

Note 15 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, the University's policy is to make annual contributions to the Plan at least equal to the minimum contribution. Based upon years of service and other factors, the Plan's benefit formula provides that eligible retirees receive a percentage of their final annual pay, based upon years of service and other factors. Plan assets consist primarily of common equity securities, U.S. Treasury securities, corporate bonds, and private investment funds. Effective July 1, 2010, the Plan no longer accrues benefits 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. The University pays a portion of the cost of such benefits depending on various factors, including employment start date, age, years of service and either the date of actual retirement or the retirement eligibility date of the participant. The post-retirement benefit plan is unfunded and has no plan assets.

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

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 $6,420, $5,513 and $6,732 for fiscal years ended June 30, 2017, 2016, and 2015, 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.

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:

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Retirement Benefits	**Pension**			**Medical and Life Insurance**			**Savings Plan**			**Total**		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**	**2017**	**2016**	**2015**
Change in net obligations:												
Projected benefit obligation at beginning of year	**205,571**	**189,842**	**186,764**	**15,624**	**15,438**	**16,721**	**-**	**-**	**-**	**221,195**	**205,280**	**203,485**
Service cost	-	-	-	223	180	207	-	-	-	223	180	207
Interest cost	7,776	8,082	7,742	603	669	699	-	-	-	8,379	8,751	8,441
Actuarial (gain) loss	(8,462)	16,885	3,569	(1,081)	912	(803)	-	-	-	(9,543)	17,797	2,766
Benefits paid	(9,257)	(9,238)	(8,232)	(962)	(3,079)	(3,859)	-	-	-	(10,219)	(12,317)	(12,091)
Medicare Part D subsidy	-	-	-	-	-	172	-	-	-	-	-	172
Employee contributions	-	-	-	179	2,286	2,301	-	-	-	179	2,286	2,301
Plan curtailments	-	-	-	-	(782)	-	-	-	-	-	(782)	-
Plan amendments	-	-	-	(3,063)	-	-	-	-	-	(3,063)	-	-
Projected benefit obligation at end of year	**195,628**	**205,571**	**189,843**	**11,523**	**15,624**	**15,438**	**-**	**-**	**-**	**207,151**	**221,195**	**205,281**
Change in plan assets:												
Fair value of plan assets at beginning of year	**156,724**	**152,920**	**156,564**	**-**	**-**	**-**	**-**	**-**	**-**	**156,724**	**152,920**	**156,564**
Actual return on plan assets	8,131	10,612	(37)	-	-	-	-	-	-	8,131	10,612	(37)
Employer contributions	-	2,430	4,625	783	793	1,386	-	-	-	783	3,223	6,011
Employee contributions	-	-	-	179	2,286	2,301	-	-	-	179	2,286	2,301
Medicare Part D subsidy	-	-	-	-	-	172	-	-	-	-	-	172
Benefits paid	(9,257)	(9,238)	(8,232)	(962)	(3,079)	(3,859)	-	-	-	(10,219)	(12,317)	(12,091)
Fair value of plan assets at end of year	**155,598**	**156,724**	**152,920**	**-**	**-**	**-**	**-**	**-**	**-**	**155,598**	**156,724**	**152,920**
Net obligation	**(40,030)**	**(48,847)**	**(36,923)**	**(11,523)**	**(15,624)**	**(15,438)**	**-**	**-**	**-**	**(51,553)**	**(64,471)**	**(52,361)**

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

	Pension			**Medical and Life Insurance**			**Savings Plan**			**Total**		
Retirement Benefits	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Recognition in Statements of Operations and Net Assets (Deficit):												
Amortization of prior service cost	100	100	100	(3,838)	(4,798)	(4,798)	-	-	-	(3,738)	(4,698)	(4,698)
Amortization of actuarial loss	2,347	1,947	2,023	581	626	802	-	-	-	2,928	2,573	2,825
Total amortization	**2,447**	**2,047**	**2,123**	**(3,257)**	**(4,172)**	**(3,996)**	**-**	**-**	**-**	**(810)**	**(2,125)**	**(1,873)**
Service cost	-	-	-	223	180	207	6,420	5,513	6,732	6,643	5,693	6,939
Interest cost	7,776	8,082	7,742	603	669	699	-	-	-	8,379	8,751	8,441
Expected return on plan assets	(9,125)	(9,264)	(7,976)	-	-	-	-	-	-	(9,125)	(9,264)	(7,976)
Curtailment (gain) loss	-	-	-	-	(2,557)	-	-	-	-	-	(2,557)	-
Recognized in operating expenses	**1,098**	**865**	**1,889**	**(2,431)**	**(5,880)**	**(3,090)**	**6,420**	**5,513**	**6,732**	**5,087**	**498**	**5,531**
Amortization of prior service cost	(100)	(100)	(100)	3,838	7,355	4,798	-	-	-	3,738	7,255	4,698
Amortization of actuarial loss	(2,347)	(1,947)	(2,023)	(581)	(626)	(802)	-	-	-	(2,928)	(2,573)	(2,825)
Total amortization	**(2,447)**	**(2,047)**	**(2,123)**	**3,257**	**6,729**	**3,996**	**-**	**-**	**-**	**810**	**4,682**	**1,873**
Net actuarial (gain) loss during the year	(7,469)	15,535	11,583	(1,087)	161	(803)	-	-	-	(8,556)	15,696	10,780
New prior service cost rising during period	-	-	-	(3,063)	-	-	-	-	-	(3,063)	-	-
Total recognized in other changes in unrestricted net assets (deficit)	**(9,916)**	**13,488**	**9,460**	**(893)**	**6,890**	**3,193**	**-**	**-**	**-**	**(10,809)**	**20,378**	**12,653**
Total recognized in Statements of Operations and Changes in Net Assets (Deficit)	**(8,818)**	**14,353**	**11,349**	**(3,324)**	**1,010**	**103**	**6,420**	**5,513**	**6,732**	**(5,722)**	**20,876**	**18,184**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2017, 2016, and 2015:

Retirement Benefits	Pension			Medical and Life Insurance		
	2017	2016	2015	2017	2016	2015
Net actuarial loss	$ (71,914)	$ (81,730)	$ (68,142)	$ (5,001)	$ (6,663)	$ (7,159)
Prior service cost	(2,401)	(2,500)	(2,600)	9,451	10,226	17,581
Total	**$ (74,315)**	**$ (84,230)**	**$ (70,742)**	**$ 4,450**	**$ 3,563**	**$ 10,422**

The Hospital's 2017 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 $2,928, $(3,738), and $0, respectively.

Contributions to the pension plan of $0, $2,430, and $4,625, were made in fiscal years ended June 30, 2017, 2016, and 2015, respectively. Contributions of $3,237 are expected to be paid to the pension plan during the fiscal year ended June 30, 2018.

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		
	2017	2016	2015	2017	2016	2015
Discount rate	4.05%	3.88%	4.36%	4.05%	3.96%	4.45%
Expected return on plan assets	7.00%	7.00%	7.00%	-	-	-
Rate of compensation increase	-	-	-	3.50%	3.50%	3.50%

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

Actuarial Assumptions	Pension Benefits			Medical and Life Insurance		
	2017	2016	2015	2017	2016	2015
Discount rate	3.88%	4.36%	4.25%	3.96%	4.45%	4.29%
Expected return on plan assets	7.00%	7.00%	7.00%	-	-	-
Rate of compensation increase						
To age 35	-	-	-	3.50%	3.50%	3.50%
Thereafter	-	-	-	3.50%	3.50%	3.50%

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

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Pension plan investments 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
Domestic Common Stock (3)	-	-	-	-
Commodity Inflation Hedging (5)	-	3,049	-	3,049
Common Stock (3)	14,932	-	-	14,932
Fixed Income	-	-	-	-
Mortgage Backed Securities (2)	-	1,292	-	1,292
Corporate Bonds (2)	-	13,194	-	13,194
Government Bonds (2)	25,163	-	-	25,163
Hedge Funds				
Distressed Debt (4)	-	-	-	-
Equity Long/short (4)	-	1,662	-	1,662
Event driven (4)	-	-	-	-
Global opportunities (4)	-	2,241	-	2,241
Multi-strategy (4)	-	-	13	13
Mutual Funds				
Emerging Market Equity Security (3)	5,526	-	-	5,526
Domestic Common Stock (3)	10,251	-	-	10,251
International Equity Security (3)	-	-	-	-
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 – Options Contracts	$ -	$ 196	$ -	$ 196
Total Liabilities	**$ -**	**$ 196**	**$ -**	**$ 196**
Total Pension Plan Investments	**$ 85,668**	**$ 55,182**	**$ 24,133**	**$ 164,983**
Operating assets not subject to fair value reporting (6)	2,562	-	-	2,562
Operating liabilities not subject to fair value Reporting (6)	(11,947)	-	-	(11,947)
Total Plan Assets	**$ 76,283**	**$ 55,182**	**$ 24,133**	**$ 155,598**

Level 3 investments were 16% of total plan investments.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Pension Plan Investments as of June 30, 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments Assets:				
Money Market Instrument (1)	$ -	$ 2,041	$ -	$ 2,041
Common/Collective Trusts				
Emerging Market Equity (3)	-	3,088	-	3,088
International Equity Developed (3)	-	23,057	-	23,057
Domestic Common Stock (3)	-	6,067	-	6,067
Commodity Inflation Hedging (5)	-	3,275	-	3,275
Common Stock (3)	7,899	-	-	7,899
Fixed Income				
Mortgage Backed Securities (2)	-	3,064		3,064
Corporate Bonds (2)	-	10,986	-	10,986
Government Bonds (2)	23,922	-	-	23,922
Hedge Funds				
Distressed Debt (4)	-	-	-	-
Equity Long/short (4)	-	1,618	-	1,618
Event driven (4)	-	-	-	-
Global opportunities (4)	-	2,100	-	2,100
Multi-strategy (4)	-	-	17	17
Mutual Funds				
Emerging Market Equity Security (3)	4,531	-	-	4,531
Domestic Common Stock (3)	9,422	-	-	9,422
International Equity Security (3)	-	-	-	-
Domestic Fixed Income (2)	35,968	-	-	35,968
Private Equity and Venture Capital (4)	-	-	20,973	20,973
Real Estate (4)	-	-	3,160	3,160
Total Assets	**$ 81,742**	**$ 55,296**	**$ 24,150**	**$161,188**
Liabilities:				
Financial Derivatives – Options Contracts	$ -	$ (90)	$ -	$ (90)
Total Liabilities	**$ -**	**$ (90)**	**$ -**	**$ (90)**
Total Pension Plan Investments	**$ 81,742**	**$ 55,206**	**$ 24,150**	**$161,098**
Operating assets not subject to fair value reporting (6)	6,286	-	-	6,286
Operating liabilities not subject to fair value Reporting (6)	(10,660)	-	-	(10,660)
Total Plan Assets	**$ 77,368**	**$ 55,206**	**$ 24,150**	**$156,724**

Level 3 investments were 15% of total plan investments.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Pension Plan Investments as of June 30, 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ 111	$ 2,981	$ -	$ 3,092
Common/Collective Trusts				
Emerging Market Equity (3)	-	1,310	-	1,310
International Equity Developed (3)	-	24,251	-	24,251
Domestic Common Stock (3)	-	6,258	-	6,258
Commodity Inflation Hedging (5)	-	3,766	-	3,766
Common Stock (3)	8,777	-	-	8,777
Fixed Income				
Mortgage Backed Securities (2)	-	1,969	-	1,969
Corporate Bonds (2)	-	619	-	619
Government Bonds (2)	18,388	-	-	18,388
Hedge Funds				
Distressed Debt (4)	-	786	-	786
Equity Long/short (4)	-	1,605	-	1,605
Event driven (4)	-	755	703	1,458
Global opportunities (4)	-	706	-	706
Multi-strategy (4)	-	-	732	732
Mutual Funds				
Emerging Market Equity Security (3)	5,155	-	-	5,155
Domestic Common Stock (3)	9,464	-	-	9,464
International Equity Security (3)				
Domestic Fixed Income (2)	41,305	-	-	41,305
Private Equity and Venture Capital (4)	-	-	22,806	22,806
Real Estate (4)	-	-	3,325	3,325
Total Assets	**$ 83,200**	**$ 45,006**	**$ 27,566**	**$ 155,772**
Liabilities:				
Financial derivatives – options contracts	$ -	$ (18)	$ -	$ (18)
Total Liabilities	**$ -**	**$ (18)**	**$ -**	**$ (18)**
Total Pension Plan Investments	**$ 83,200**	**$ 44,988**	**$ 27,566**	**$ 155,754**
Operating assets not subject to fair value reporting (6)	3,402	-	-	3,402
Operating liabilities not subject to fair value Reporting (6)	(6,236)	-	-	(6,236)
Total Plan Assets	**$ 80,366**	**$ 44,988**	**$ 27,566**	**$ 152,920**

Level 3 investments were 18% 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

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 by 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.

For Fiscal Years ended June 30, 2017, 2016, and 2015 (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**

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

Changes in Level 3 Security Value year ended June 30, 2016	**Equity – Private and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2015	$ 22,806	$ 1,435	$ 3,325	$ 27,566
Gain and Loss (Realized and Unrealized)	1,331	(3)	(738)	590
Purchases	1,330	-	1,698	3,028
Transfer Out and Sales	(4,494)	(1,415)	(1,125)	(7,034)
Balance June 30, 2016	**$ 20,973**	**$ 17**	**$ 3,160**	**$ 24,150**
Change in unrealized investments held	**$ (1,626)**	**$ (173)**	**$ 314**	**$ (1,485)**

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

Changes in Level 3 Security Value year ended June 30, 2015	**Equity – Private and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2014	$ 25,754	$ 1,593	$ 3,731	$ 31,078
Gain and Loss (Realized and Unrealized)	1,572	(158)	516	1,930
Purchases	1,980	-	172	2,152
Transfer Out and Sales	(6,500)	-	(1,094)	(7,594)
Balance June 30, 2015	**$ 22,806**	**$ 1,435**	**$ 3,325**	**$ 27,566**
Change in unrealized investments held	**$ (1,553)**	**$ (160)**	**$ 222**	**$ (1,491)**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

Pension Plan Investment Commitments – The Hospital's investment commitments as of June 30, 2017, 2016, and 2015, are summarized below. Additionally, some of these investments do not have readily ascertainable market values and may be subject to withdrawal restrictions and are less liquid than the Hospital's other investments.

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

Investments as of June 30, 2016	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 3,735	$ -	Monthly/Annually	45-90 days
Real Estate Funds	$ 3,160	$ 182	-	2-10 years
Common/Collective Trusts	$ 35,492	$ -	Monthly	-
Limited Partnerships	$ 21,105	$ 4,933	-	≤ 10 years

Investments as of June 30, 2015	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 5,287	$ -	Monthly/Annually	45-90 days
Real Estate Funds	$ 3,325	$ 457	-	2-10 years
Common/Collective Trusts	$ 35,585	$ -	Monthly	-
Limited Partnerships	$ 22,806	$ 4,331	-	≤ 10 years

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, 2017, 2016, and 2015 (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	**2017**	**2016**	**2015**	**Allowable Range**
Mid-Large Cap U.S. Equity	10.2%	8.8%	9.7%	10-20%
Small Cap U.S. Equity	2.6%	3.0%	3.3%	0-10%
International Equity - Developed	18.2%	14.7%	16.0%	10-20%
Private Equity/Venture Capital	11.7%	15.4%	16.3%	5-10%
Hedge Funds	2.5%	2.4%	3.5%	5-15%
Inflation Hedging	8.9%	5.4%	5.9%	10-15%
Emerging Markets Equity	6.1%	4.9%	4.3%	0-10%
U.S. Core Bonds	39.3%	44.7%	39.3%	25-35%
Cash and Cash Equivalents	0.5%	0.7%	1.7%	0-5%
Total	**100%**	**100%**	**100%**	

The trend rate for growth in health care costs, used in the calculation for fiscal year 2017 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:

		Medical and Life Insurance		
Expected Future Benefit Payments	**Pension Benefits**	**Excluding Subsidy**	**Subsidy Payments**	**Net of Subsidy**
Years ending June 30:				
2018	$ 10,673	$ 685	$ -	$ 685
2019	11,070	703	-	703
2020	11,393	718	-	718
2021	11,534	708	-	708
2022	11,710	718	-	718
2023-2027	60,399	3,487	-	3,487
Total	**$ 116,779**	**$ 7,019**	**$ -**	**$ 7,019**

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 16 Commitments and Contingencies

(a) *Litigation and Other Claims*

During the ordinary course of business**,** the Hospital is a party to various litigation and other claims including claims of malpractice by the Hospital and faculty physicians. It is also subject to potential future claims based on findings or accusations arising from past practices under governmental programs and regulations and tort law. In the opinion of management and the Hospital's general counsel, an appropriate monetary provision has been made to account for probable losses and the ultimate resolution of these matters.

(b) *Collective Bargaining Agreements*

Howard has several collective bargaining agreements currently in effect with unions representing approximately 1,125 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

Note 17 Related Party Transactions

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

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

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

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

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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	**2017**	**2016**	**2015**
Operating charges allocated from the Hospital to the University:			
Medical malpractice	$ 2,440	$ 1,140	$ 4,510
Facilities	659	644	831
Administrative services	-	-	298
Physicians salaries	(14,157)	(15,314)	(17,315)
Total charges allocated from the Hospital to the University	**(11,058)**	**(13,530)**	**(11,676)**
Operating charges allocated to the Hospital from the University:			
Employee tuition remission	(1,670)	(1,675)	(2,379)
Utilities	(3,683)	(3,731)	(4,670)
Other	(7,478)	19,575	(2,050)
Total charges allocated to the Hospital from the University	**(12,831)**	**14,169**	**(9,099)**
Net charges allocated from the Hospital/(allocated to the Hospital):	**(23,889)**	**639**	**(20,775)**
Federal appropriation allocated to the Hospital from the University	27,500	27,046	26,021
Total operating support provided from the University to the Hospital	**3,611**	**27,685**	**5,246**
Financing support provided from the University to the Hospital:			
Acquisition of equipment under finance leases	-	-	-
Finance lease payments made by the Hospital	(5,315)	(7,121)	(6,142)
Total financing support provided to the Hospital	**(5,315)**	**(7,121)**	**(6,142)**
Total support provided to the Hospital	**$ (1,704)**	**$ 20,564**	**$ (896)**

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

Interdivisional Balances – Statements of Financial Position	**2017**	**2016**	**2015**
Current assets	$ -	$ -	$ -
Current liabilities	(805)	(805)	(805)
Long term liabilities	(28,571)	(37,400)	(37,992)
Total interdivisional balances	**$ (29,376)**	**$ (38,205)**	**$ (38,797)**

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Interdivisional Transactions – Statements of Financial Position	2017	2016	2015
Short term financing	$ -	$ -	$ -
Bond transactions, net	(5,282)	131	(2,318)
Long term financing	2,930	(1,544)	9,134
Net charges recovered from the University/(allocated to the Hospital)	11,181	2,005	(27,591)
Net activity during the year	8,829	592	(20,775)
Balance at beginning of the year	(38,205)	(38,797)	(18,022)
Balance at end of the year	**$ (29,376)**	**$ (38,205)**	**$ (38,797)**

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

Interdivisional Balances – Asset/Liability Allocations	2017	2016	2015
Assets:			
Deposits with trustees	$ 2,131	$ 1,728	$ 1,517
Pension assets	155,598	156,724	152,920
Total assets	**$ 157,729**	**$ 158,452**	**$ 154,437**
Liabilities:			
Reserves for self-insured liabilities	$ 65,984	$ 70,928	$ 74,467
Finance lease obligations	27,793	33,613	39,987
Bonds payable, net	28,639	31,672	31,629
Total liabilities	**$ 122,416**	**$ 136,213**	**$ 146,083**

Note 18 Howard University Dialysis Center

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

For Fiscal Years ended June 30, 2017, 2016, and 2015 (amounts in thousands)

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

Howard University Dialysis Center, LLC **Statement of Financial Position** *As of June 30,*	**2017**	**2016**	**2015**
Total Assets	$ 11,390	$ 12,199	$ 12,095
Total Liabilities	$ 1,075	$ 795	$ 590
Equity:			
Partner	5,586	6,911	7,836
Retained Earnings	4,729	4,493	3,669
Total Equity	$ 10,315	$ 11,404	$ 11,505
ARA Interest	$ 5,261	$ 5,816	$ 5,868
Howard Interest	$ 5,054	$ 5,588	$ 5,637

Note 19 Subsequent Events

The Hospital performed an evaluation of subsequent events through December 11, 2017, which is the date of the financial statements were issued, noting no additional events that affect the financial statements as of June 30, 2017.