The Howard University Hospital

(an unincorporated operating segment of The Howard University)

Financial Statements

June 30, 2021 and 2020

Table of Contents | **Page(s)**

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Independent Auditor's Report

Board of Trustees of
The Howard University

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2021 and 2020, and the related statements of operations and changes in net assets (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year after the date that financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, LLP

March 2, 2022

Statements of Financial Position **As of June 30:** *(in thousands)*	**2021**	**2020**
Current assets:		
Cash and cash equivalents	$ 65,982	$ 63,260
Deposits with trustees	2	2
Patient receivables, net	26,159	25,259
Contract assets	2,015	3,239
Inventories and prepaid	6,792	6,170
Due from Howard University	-	379
Other receivables	1,393	1,489
Total current assets	**102,343**	**99,798**
Non-current assets:		
Deposits with trustees	1,812	1,328
Third party & insurance recoveries, net	11,140	10,427
Finance right of use assets, net	19,203	20,063
Long-lived assets, net	51,032	51,754
Overfunded defined benefit pension plan	10,073	-
Other non-current assets, net	4,406	4,398
Total non-current assets	**97,666**	**87,970**
Total assets	**$ 200,009**	**$ 187,768**
Current liabilities:		
Accounts payable and accrued expenses	$ 41,162	$ 47,258
Deferred revenue	25,190	48,888
Accrued post-retirement benefits	613	613
Reserve for self-insured liabilities	12,247	1,944
Bonds payable, net	50	914
Finance lease obligations	2,815	3,015
Due to Howard University	17,654	-
Other liabilities	14	14
Total current liabilities	**99,745**	**102,646**
Non-current liabilities:		
Accrued post-retirement benefits	12,268	11,522
Underfunded defined benefit pension plan	-	44,630
Reserve for self-insured liabilities	46,228	49,159
Bonds payable, net	28,494	25,147
Finance lease obligations	18,509	19,411
Total non-current liabilities	**105,499**	**149,869**
Total liabilities	**$ 205,244**	**$ 252,515**
Net assets (deficit):		
Without donor restrictions	(50,235)	(109,747)
Inter-divisional transfer	45,000	45,000
Total net asset deficit	**(5,235)**	**(64,747)**
Total liabilities and net assets deficit	**$ 200,009**	**$ 187,768**

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)*	**2021**	**2020**
Patient service revenue, net	$ 280,440	$ 267,064
Federal appropriation	27,325	27,325
Other income	46,018	19,592
Total operating revenues	**353,783**	**313,981**
Healthcare services	257,760	233,449
Administrative support	66,076	61,315
Total operating expenses	**323,836**	**294,764**
Loss on extinguishment of debt	2,998	-
Excess of revenues over expenses	**26,949**	**19,217**
Net periodic benefit cost other than service cost	1,021	(1,140)
Change in funded status of defined benefit pension plan	31,243	(2,663)
Change in obligation for post retirement benefit plan	(1,151)	(1,191)
Net assets released from restriction for capital acquisitions	1,450	7,183
Change in net assets (deficit)	**$ 59,512**	**$ 21,406**
Net assets (deficit), beginning of year	(64,747)	(86,153)
Net assets (deficit), end of year	**$ (5,235)**	**$ (64,747)**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows **For Fiscal Years Ended June 30:** *(in thousands)*	**2021**	**2020**
Cash flows from operating activities		
Change in net assets (deficit)	**$ 59,512**	**$ 21,406**
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by/(used in) operating activities:		
Depreciation and amortization	10,307	12,153
Bond discount amortization	234	25
Bond issuance costs	165	19
Loss on extinguishment of debt	2,998	-
Decrease in pension/post retirement liability	(53,957)	(252)
Contributions received restricted for capital acquisitions	(1,450)	(7,183)
Changes in net assets adjusted for non-cash operating items	**17,809**	**26,168**
Change in receivables (excluding notes)	(1,517)	7,822
Change in contract assets	1,224	2,290
Change in inventory and prepaid	(622)	(1,021)
Change in other non-current assets	(8)	572
Change in deposits with trustees	(484)	100
Change in accounts payable and accrued expenses	(6,096)	9,695
Change in deferred revenue	(23,698)	48,888
Change in reserve for self-insured liabilities	7,372	(4,908)
Change in other liabilities	-	(9)
Net cash and cash equivalents (used in) provided by operating activities	**(6,020)**	**89,597**
Cash flows from investing activities		
Purchases and renovations of long-lived assets	(6,297)	(8,782)
Net cash and cash equivalents used in investing activities	**(6,297)**	**(8,782)**
Cash flows from financing activities		
Payment on bonds payable	(914)	(1,267)
Principal payments on finance lease obligation	(3,440)	(2,761)
Change in finance right of use assets and finance lease obligation	(90)	252
Change in due to (from) Howard University	18,033	(41,684)
Contributions received restricted for capital acquisitions	1,450	7,183
Net cash and cash equivalents provided by (used in) financing activities	**15,039**	**(38,277)**
Net increase in cash and cash equivalents	**2,722**	**42,538**
Cash and cash equivalents at beginning of year	63,260	20,722
Cash and cash equivalents at end of year	**$ 65,982**	**$ 63,260**
Supplemental cash flow information:		
Net cash paid for interest	**$ 3,265**	**$ 3,713**
Supplemental non-cash investing information:		
Acquisition of equipment under financing leases, net	**$ 2,364**	**$ 572**

The accompanying notes are an integral part of these financial statements

Note 1 Summary of Significant Accounting Policies

(a) ***General***

The Howard University Hospital (the "Hospital") is a not-for-profit hospital located in Washington, DC, providing inpatient, outpatient, and emergency care services for residents of the District of Columbia (the "District"). The Hospital operates as an unincorporated operating segment of The Howard University ("Howard"), which is a private, nonprofit institution of higher education. The Hospital is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(b) ***Income Taxes***

The principal operations of the Hospital are recognized as exempt from income tax under the applicable income tax regulations of the Internal Revenue Code and the District. The Hospital's operating activities are included in Howard's Form 990. The Hospital does not have any uncertain tax positions as of June 30, 2021 and 2020.

(c) ***Basis of Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

(d) ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP 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 determination of variable consideration in revenue transactions in accordance with Accounting Standards Codification (ASC) Section 606, Revenue from Contracts with Customers, the carrying value of patient receivables; property, plant and equipment; the adequacy of reserves for professional liabilities; pension and post-retirement benefits; self-insured health benefits asset retirement obligations; third-party settlements and legal expense accruals.

(e) New Accounting Pronouncements

Periodically, the Financial Accounting Standards Board (FASB) issues updates to the ASC which impact the Hospital's financial reporting and related disclosures. The following paragraphs summarize relevant updates. Unless otherwise noted, the Hospital is currently evaluating the impact that these updates will have on the Financial Statements.

In March 2020, the FASB issued ASU 2020-03, Codification improvements to Financial Instruments, effective for annual financial statements issued for fiscal years beginning after December 15, 2019. The ASU clarifies that all nonpublic companies and organizations are required to provide certain fair value option disclosures. The Hospital is evaluating the impact on ASU 2020-03.

In January 2020, the FASB issued ASU 2020-01, Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)—Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. For non-public entities, ASU 2020-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The new ASU clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. The Hospital is evaluating the impact ASU 2020-01.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. For non-public entities, ASU 2019-12 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The ASU improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacted changes in tax laws in interim periods. Hospital is evaluating the impact ASU 2019-12.

(f) Net Assets

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

> **Without Donor Restrictions** – Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the Board) and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

With Donor Restrictions – Net assets with donor restrictions are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled by actions pursuant to those stipulations.

Income from these assets can be without donor restrictions or with donor restrictions 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, or in accordance with any applicable trust agreements.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Investment income is reported as an increase in net assets without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 without donor restriction contributions in the accompanying financial statements. As of June 30, 2021 and 2020, the Hospital did not have any net assets with donor restrictions.

(g) ***Excess of Revenues Over Expenses***

The statements of operations and changes in net assets (deficit) only include activities without donor restrictions. Changes in net assets (deficit) without donor restriction which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains (loss) on investments, postretirement, and pension related charges other than net periodic pension and postretirement costs, and permanent transfers of assets to and from affiliates for other than goods and services.

(h) ***Receivables and Revenue Recognition***

Revenue

The accompanying statement of operations and changes in net assets (deficit) for the year ended June 30, 2021 and 2020 are presented in accordance with Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASC Subtopic 958-605, *Not for Profit Entities – Revenue* (where applicable).

The Hospital measures revenue from contracts with customers based on the consideration specified in a contract with a customer and recognizes revenue as a result of satisfying its promise to transfer goods or services in a contract with a customer using the following general revenue recognition five-step model: (1) identify the contract; (2) identify performance obligations; (3) determine transaction price; (4) allocate transaction price; and (5) recognize revenue.

The Hospital earns revenue primarily through providing health care services to patients.

Disaggregation of Revenue from Contracts with Customers

ASC 606 requires that entities disclose disaggregated revenue information in categories (such as type of good or service, geography, market, type of contract, etc.) that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. ASC 606 explains that the extent to which an entity's revenue is disaggregated depends on the facts and circumstances that pertain to the entity's contracts with customers and that some entities may need to use more than one type of category to meet with the objective for disaggregating revenue.

Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account under ASC 606. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Hospital does not capitalize contract costs.

The performance obligations related to contracts with patients are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. The Hospital enters into contracts that include various combinations of services, which are generally capable of being distinct and are accounted for as separate performance obligations. The Hospital's contracts with customers subject to ASC 606 guidance applies to the following revenue:

Net patient service revenue relates to contracts with patients in which our performance obligations are to provide health care services to the patients.

The Hospital has determined that with respect to net patient service revenue, the contract is with the patient. The patient is receiving all the benefits of the contract since they are the recipient of the healthcare services. Separate contractual agreements that exist between the Hospital and third-party payors which establish amounts to be paid on behalf of the patients are not considered separate contracts with customers. The terms of third-party payor contracts are used in the determination of the transaction price and any applicable constraints.

The Hospital's revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for services provided patients typically specify payments at amounts less than the Hospital's standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic, and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

The Hospital's revenues are based upon the estimated amounts that management expects to be entitled to receive from patients and third-party payors. Estimates of price concessions under managed care and commercial insurance plans are based upon the payment terms specified in the related contractual agreements. Revenues related to uninsured patients and insured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). Management also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record self-pay revenues at the estimated amounts that it expects to collect. Subsequent changes in the estimate of collectability due to a change in the financial status of a payor, for example a bankruptcy, will be recognized as bad debt expense in operating expenses.

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, the Hospital does, in certain circumstances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations.

The collection of outstanding receivables for Medicare, Medicaid, managed care payors, other third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. The Hospital's practice is to assign a patient to the primary payor and not reflect other uninsured balances as self-pay. Therefore, the payors listed above contain patient responsibility components such as deductibles and copayments. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed.

The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state, and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of the Hospital's revenues and patient accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of patient accounts receivable. Management performs a hindsight analysis monthly, utilizing rolling twelve-month patient accounts receivable collection and write-off data. Management believes monthly updates to the estimated implicit price concession amounts provide reasonable estimates of its revenues and valuations of its patient accounts receivable. These routine, monthly changes in estimates have not resulted in material adjustments to the valuations of patient accounts receivable or period-to-period comparisons of the results of operations.

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

Federal appropriation revenue is recognized when received and expended. 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, 2021 and 2020, respectively, the Hospital received $27,325 and $27,325, approximately 8% and 9%, of its revenue support from the Federal appropriation.

Other income for the year ending June 30, 2021 was primarily composed of revenue recognized related to distributions of the CARES Provider Relief Fund (*see Note 18*).

(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 that any such investments purchased with funds on deposit with bond trustees, or with funds held in trusts, are classified as deposits with trustees. Cash equivalents include certificates of deposit, short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at approximate 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.

(k) ***Inventories***

Inventories, which primarily consist of medical supplies and pharmaceuticals, are recorded at the lower of cost or realizable value on the first-in, first-out basis.

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

Long-lived assets include property, plant, and equipment for the Hospital. Property, plant, and equipment is stated at cost or at fair value if received by gift, less accumulated depreciation, and amortization. Property, plant, and equipment is capitalizable when the unit cost is equal to or exceeds $3 and has a useful life of more than one year. To address continuing technology advances, the Hospital typically leases their large medical equipment to mitigate the risk of purchasing assets that will become obsolete in the short-term. Refer to Note 13 for Lease disclosure.

The Hospital capitalizes and recognizes purchased and donated works of art and historical treasures on the statements of financial position. The Hospital did not have any such activities during the fiscal years ended June 30, 2021 and 2020.

Depreciation for all other long-lived assets is computed using the straight-line method over the estimated useful lives of the assets. The useful lives for fiscal years reported are as follow:

Land improvements	1-25 years
Building and building improvements	5-40 years
Furniture and equipment	3-20 years
Software	3-10 years

Title to certain equipment purchased using funds provided by government grants or contracting agencies is vested with the Hospital, and therefore is included in reported property balances. Such assets are subject to transfer or disposal by the relevant cognizant agency.

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 earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

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

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

(n) ***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. The reserve also includes an estimate of the cost to resolve unasserted claims that actuarial analyses indicate are plausible of assertion in the future. Medical malpractice reserves are undiscounted and include an estimate of the cost to resolve unasserted claims that the actuarial analysis indicates are probable of assertion in the future. Workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidences. The estimated workers' compensation liability is not reported on a discounted basis.

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

The funded status of the Hospital's pension benefit (the Plan) 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 Hospital's actuarially determined post-retirement benefit obligation is recognized on the statements of financial position as an asset for the year ended June 30, 2021, and as a liability for the year ended June 30, 2020. The Hospital follows the Internal Revenue Service (IRS) guidelines in the administration of the Plan.

(p) ***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.

(q) ***Deferred Revenue***

Deferred revenue represents cash received, but not earned as of June 30, 2021. This is primarily composed of unearned cash received from the Medicare Accelerated and Advanced Payment Program (*see Note 18*).

(r) ***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 asset balances.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

Note 2 Liquidity and Availability of Resources

As of June 30, financial assets and liquidity resources that are available within one year for general expenditures consists of the following:

Financial Assets and Liquidity Resource	2021	2020
Financial Assets:		
Cash and cash equivalents	$ 65,982	$ 63,260
Patient receivables, net	26,159	25,259
Contract assets	2,015	3,239
Other receivables	1,393	1,489
Total financial assets and liquidity resources available within one year	**$ 95,549**	**$ 93,247**

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. In addition, Howard has committed to funding the Hospital as required to meet obligations and continue to operate through March 31, 2023.

Note 3 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 Healthcare Alliance program ("DC Alliance program") that serves low income District Residents who have no insurance and are not eligible for Medicaid. The total costs foregone for services furnished under the Hospital's charity care policy and the DC Alliance program were $3,117 and $4,243 for fiscal years ended June 30, 2021 and 2020, respectively.

Note 4 Insurance and Risk Management

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

The self-insured medical malpractice program covers professional liability costs up to $7,500 per occurrence depending on the cause. In addition, there are two layers of excess insurance coverage. The first layer of the excess insurance coverage is up to $35,000 on a claims-made basis. This layer is purchased through a captive insurance company, Howard University Capitol Insurance Company, Ltd. ("HUCIC"), organized under the laws of the Cayman Islands. HUCIC covers prior acts retroactive to two separate policy periods dating July 1, 1996 and January 1, 1986, and it is completely reinsured. The second layer of excess liability insurance which also covers comprehensive general liability, managed-care liability, and professional liability is up to $50,000 on a claims-made basis. The second layer of excess coverage is provided by an independent excess insurance company.

For Fiscal Years ended June 30, 2021 and 2020 (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. The Hospital had cash balances on deposit with one bank that that exceeded the balance insured by the FDIC in the amounts of $67,703 and $67,029 for the years ending June 30, 2021 and 2020, respectively.

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	2021	2020
Medicare	9%	9%
Medicaid	42%	37%
Blue Cross	4%	2%
Other third-party payors	13%	17%
Patients	32%	35%
	100%	**100%**

Note 6 Contract Assets

In compliance with ASC 606, estimated reimbursement from patients that were inhouse at the end of the reporting period are reported as contract assets on the statements of financial position. The following is a summary of the balances at June 30, 2021:

Inhouse Receivables - Contract Assets	2021	2020
Inhouse charges	$ 9,691	$ 12,643
Price concessions	(7,676)	(9,404)
Net contract assets	**$ 2,015**	**$ 3,239**

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

Note 7 Accounts Payable and Accrued Expenses

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

Accounts Payable and Accrued Expenses	2021	2020
Vendor invoices	$ 28,366	$ 36,064
Accrued salaries and wages	9,357	9,053
Accrued employee benefits	15	109
Accrued annual leave	3,030	1,562
Accrued interest	394	470
Total	**$ 41,162**	**$ 47,258**

Note 8 Deposits with Trustees and Self-insured Liabilities

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

	Dedicated Assets		Estimated Liability	
	2021	2020	2021	2020
Debt service reserve fund	$ 1,454	$ 1,428	NA	NA
Professional and general	-	-	$ 49,698	$ 41,068
Workers' compensation	2	2	7,225	9,213
Health Insurance	358	(100)	1,552	822
Total	**$ 1,814**	**$ 1,330**	**$ 58,475**	**$ 51,103**

NA = Not applicable

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

As required by the 2011 Revenue Bonds and 2021A bonds, Howard maintains a debt service reserve fund in an amount greater than or equal to the Debt Service Fund Requirement of $24,761 and $13,074 as of June 30, 2021, and 2020, respectively. The portion of this fund allocated to the Hospital in fiscal years ended June 30, 2021 and 2020 is $1,454 and $1,428, respectively. The assets in the debt service reserve fund consist primarily of cash, fixed income, and other short-term securities.

(b) ***Professional and General Liability***

The Hospital is involved in litigation arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Hospital and certain faculty physicians and are currently in various stages of litigation. Additional claims may be asserted arising from services provided to patients through June 30, 2021. It is the opinion of management based on the advice of actuaries and legal counsel that the estimated malpractice costs accrued at June 30, 2021 and 2020 of approximately $49,698 and $41,068, respectively, are adequate to provide for losses resulting from probable unasserted claims and pending or threatened litigation. There is no discount reflected at June 30, 2020 and 2019.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

Professional Liability	**2021**	**2020**
Beginning Balance	$ 41,068	$ 45,371
Malpractice claims expense	9,560	(2,209)
Settlement payments	(930)	(2,094)
Ending Balance	**$ 49,698**	**$ 41,068**

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

Prior to July 1, 2012, the Hospital had established a revocable trust fund to partially provide for the satisfaction of its liability under applicable workers' compensation liability. The assets in the workers' compensation trust fund consisted of U.S. Treasury Bills and obligations, as well as domestic and foreign corporate bonds. As of June 30, 2021, workers' compensation liabilities are being satisfied as claims arise. For fiscal years ended June 30, 2021 and 2020, the Hospital maintained $5,125 in letters of credit, respectively, which serve as collateral for specific insurance carriers. The Hospital 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, 2021 and 2020, expenses (income) related to workers' compensation were $(1,120) and $1,655 respectively and are reflected in operating expenses.

The total liability for future workers' compensation liability claims was approximately $7,225 and $9,213 at June 30, 2021 and 2020, respectively, and includes liabilities for claims covered under existing insurance policies. Workers' compensation liability claims is reported in reserve for self-insured liabilities on the statement of financial position. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. This liability is recorded on the accompanying consolidated statements of financial position in reserves for self-insured liabilities.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

(d) ***Health Insurance***

The Hospital established a revocable self-insured trust fund for the purpose of funding group health benefits for its employees. The assets, held by the Hospital, 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 claim's administrator. Disbursements from the fund are made in accordance with the payment plan established with the claim's administrator. The total estimated liability for asserted and unasserted probable Hospital claims at June 30, 2021 and 2020 is approximately $1,552 and $822, 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 drives are observable in active markets either directly or indirectly.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are not observable.

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

Fair Value as of June 30, 2021	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 65,982	$ -	$ 65,982
Deposits with Trustees (2)			
Cash and Cash equivalent (1)	360	-	360
Money Market Fund (1)	-	1,454	1,454
Total Asset (non-investment)	**$ 66,342**	**$ 1,454**	**$ 67,796**

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

Fair Value as of June 30, 2020	**Level 1**	**Level 2**	**Total**
Assets:			
Cash and Cash equivalents (1)	$ 63,260	$ -	$ 63,260
Deposits with Trustees (2)			
Cash and Cash equivalent (1)	(98)	-	(98)
Money Market Fund (1)	-	1,428	1,428
Total Asset (non-investment)	**$ 63,162**	**$ 1,428**	**$ 64,590**

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

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

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

(3) Third party and Insurance Recoveries - The carrying amounts reported in the accompanying statements of financial position for estimated third-party payor receivable settlements approximate fair value.

(4) Long-term Debt - Fair values of the Hospital's revenue bonds are based on current traded value. The fair value of the remaining long-term debt is estimated using discounted cash flow analysis, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

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

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

	2021		2020	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Assets:				
Cash and Cash Equivalents	$ 65,982	$ 65,982	$ 63,260	$ 63,260
Deposits with Trustees	1,814	1,814	1,330	1,330
Third-Party and Insurance Recoveries	11,140	11,140	$ 10,427	$ 10,427
Liabilities:				
Bonds Payable	$ 28,544	$ 20,415	$ 26,061	$ 29,672

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:

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. The Hospital receives disproportionate share hospital (DSH), medical education and capital payments on a per discharge basis. For the fiscal years ended June 30, 2021 and 2020, the Hospital received Medicare revenues attributable to DSH of $9,951 and $10,075, respectively.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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, 2021 and 2020, the Hospital received Medicaid revenues attributable to DSH of $80,365 and $67,930, respectively.

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.

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	**2021**	**2020**
Medicare	$ 102,168	$ 79,594
Medicaid	448,822	507,069
Blue Cross and others	199,689	186,690
Gross Revenues	**750,679**	**773,352**
Third-party payor settlement revenue (*Note 11*)	97,205	90,948
Price concessions	$ (567,444)	$ (597,236)
Total Net Patient Service Revenue	**$ 280,440**	**$ 267,064**

The composition of gross patient service revenue based on the Hospital's lines of business for the years ended June 30 is as follows:

Gross Revenues	**2021**	**2020**
Inpatient services	$ 437,312	$ 461,095
Outpatient services	207,460	201,007
Emergency care services	105,907	111,250
Total Gross Revenues	**$ 750,679**	**$ 773,352**

Direct Graduate and Indirect Medical Education (GME and IME) Payments

The Medicare program provides additional reimbursement to approved teaching hospitals for additional expenses incurred by such institutions. This additional reimbursement, which is subject to certain limits, including intern and resident full-time equivalent ("FTE") limits, is made in the form of GME and IME payments. GME and IME payments for the fiscal years ended June 30, 2021 and 2020 were $10,954 and $11,075, respectively.

Medicaid Managed Care Graduate Medical Education (HMO GME)

The Medicaid program pays a portion of the cost of medical education. The payments come from the District regardless of whether the patient is covered directly by the District or is enrolled in a Medicaid Managed Care program. Payment of GME for Medicaid Managed Care programs is determined by the Hospital's portion of a pool of money allocated by the District determined by Hospital's Medicaid HMO GME patient days in relation to the total of all the District hospitals. The final amount is usually determined between one and two years after the end of the respective fiscal year. The Hospital records an estimated receivable for the amount it expects to receive. For the years ended June 30, 2021 and 2020, the estimated receivable was $8,003 and $6,098, respectively.

Note 11 Estimated Third-Party Settlements

Certain services rendered by the Hospital are reimbursed by third-party payors at cost, based upon cost reports filed after year-end. Contractual allowances are recorded based upon preliminary estimates of reimbursable costs.

Net patient service revenue recorded under cost reimbursement agreements for the current and prior years is subject to audit and retroactive adjustments by significant third-party payors for the following years:

Medicare 2018-2019
Medicare 2019-2020
Medicare 2020-2021

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase in net patient service revenues of approximately $18,199 and $1,753for fiscal years ended June 30, 2021 and 2020, respectively.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

Third-party settlement revenue	2021	2020
Medicare pass-through	$ 9,951	$ 10,075
Disproportionate Share Hospital	80,365	67,930
Graduate Medical Education	10,954	11,075
Other	(4,065)	1,868
Total third-party settlement revenue	**$ 97,205**	**$ 90,948**

Note 12 Long-Lived Assets, net

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

Property, Plant and Equipment, net	2021	2020
Land and land improvements	$ 5,418	$ 5,418
Buildings and building improvements	161,333	154,310
Furniture and equipment	153,551	149,214
Software and computer hardware	43,542	43,220
Construction in progress	1,998	7,382
Long-lived assets, gross	365,842	359,544
Accumulated depreciation	(314,810)	(307,790)
Long-lived assets, net	**$ 51,032**	**$ 51,754**

Depreciation expense for the fiscal years ended June 30, 2021 and 2020 were $7,020 and $9,139, respectively.

Note 13 Leases

Lease Obligations

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.

The Hospital measures its lease assets and lease liabilities using the discount rate implicit in the lease. If that rate is not available or readily determinable, the Hospital uses its incremental borrowing rate.

The Hospital has elected to use the practical expedient election under ASC 842-10-15-37. The practical expedient election allows the lessee to elect by class to choose not to separate non-lease components from lease components and instead account for each lease component as a single lease.

Finance Leases

The Hospital was obligated under finance leases for office and medical equipment that extend through fiscal year 2026, and the chiller plant that extends through fiscal year 2032, in the amounts of $21,324 and $22,426, respectively at fiscal years ended June 30, 2021 and 2020. 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 expend its useful life by the end of the lease, management reviews each lease option to modify terms on a case by case basis. The right-of-use assets are amortized over the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

For Fiscal Years ended June 30, 2021 and 2020 (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	**2021**		**2020**	
Right of use assets – Financing	$	32,506	$	31,299
Accumulated amortization		(13,303)		(11,236)
Right of use assets, net	**$**	**19,203**	**$**	**20,063**

Amortization expense for the fiscal years ended June 30, 2021 and 2020 was $3,225 and $3,002, respectively. The discount rates used in measuring the finance right-of-use assets and liabilities were either the rates implicit in the lease if readily determinable (if applicable) or the Hospital's incremental borrowing rate near the date of lease commencement.

At June 30, 2021, 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**	
2022	$	4,311
2023		3,846
2024		3,303
2025		2,743
2026		2,286
2027 and thereafter		13,691
Obligation, gross		**30,180**
Amounts representing interest rates from 2% to 8%		(8,856)
Total Lease Obligations, net	**$**	**21,324**

At June 30, 2021, 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**	
2022	$	1,440
2023		1,305
2024		1,178
2025		1,066
2026		954
2027 and thereafter		2,913
Total Lease Obligations - Interest	**$**	**8,856**

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

Lease Expense	**2021**	**2020**
Finance lease expense:		
Amortization of right to use assets	$ 3,225	$ 3,002
Interest on lease liabilities	1,609	1,733
Total Lease Expense	**$ 4,834**	**$ 4,735**

Other Information	**2021**	**2020**
Cash paid for amounts included in the measurements of lease liabilities for finance leases:		
Financing cash flows	$ 3,440	$ 2,761
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	$ 2,364	$ -
Weighted-average remaining lease term (in years):		
Finance leases	8.71	8.96
Weighted-average discount rate:		
Finance leases	7.42%	7.30%

Lease Income

Lessor Operating 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, 2021 and 2020 (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, 2021 and 2020 was $1,753 and $1,686, 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
2022	64
2023	27
2024	-
2025	-
2026 and there after	-
Total Minimum Lease Income	**91**

Note 14 Bonds Payable

(a) *Bonds Payable*

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

Bonds Payable	2021	2020
District of Columbia issues:		
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 244	$ 291
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	-	12,084
2011B Revenue bonds 4.31% to 7.63% Serial due 2016 through 2036	13,675	14,546
2020B Taxable bonds 1.99% to 3.48% Serial due 2021 through 2042	15,415	-
Total bonds payable, gross	**$ 29,334**	**$ 26,921**
Bond premiums (discounts)	(174)	(497)
Bond issuance costs	(616)	(363)
Current portion bonds payable	(50)	(914)
Total long-term bonds payable, net	**$ 28,494**	**$ 25,147**

(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) ***Defeasance of 2011A Series Revenue Bonds and Issuance of Series 2020B Taxable Bonds***

In July 2020, the University issued taxable bonds, Series 2020B in the aggregate principal of $209,085 (the "Series 2020B Bonds"), to (i) effect the refunding of the District of Columbia Revenue Bonds (Howard issued Series 2011A) and (ii) pay for the cost of issuance related to the series 2020B bonds. The net proceeds of the 2020B bonds (after payment of underwriting fees and issuance costs) were used to purchase securities which, along with cash, were deposited with an escrow agent to provide all future debt service payments owed to holders of the Series 2011A bonds through 2041. As a result, the 2011A series bonds are defeased and the liability for those bonds and related unamortized deferred financing costs have been removed from the financial statements.

The Series 2020B bonds bear interest between 1.99% and 3.48% and are repayable between 2025 and 2041.

(3) ***2011B Taxable Bonds***

In April 2011, Howard issued $65,065 of Series 2011B bonds to refund the Series 1998 and Series 2006 bonds and to finance new capital improvements. The Series 2011B bonds bear interest between 4.31% and 7.63% and are repayable from 2015 to 2035. The average coupon rate is 6.57%. The 2011 bonds require Howard to maintain a debt service fund of $12,634. At the fiscal year ended June 30, 2021 the fund balance was $24,761.

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.

(4) ***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, 2021 and 2020, the estimated fair value was approximately $20,415 and $29,672, 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.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

(5) ***Compliance with Contractual Covenants***

The Series 2011B and Series 2020B contain restrictive financial covenants as summarized in the table below as of June 30, 2021.

Covenant	Instrument	Measurement Dates	Criteria
Debt Service Coverage Ratio	2011B Revenue Bonds	June 30 each year	1.10:1.00
Debt Service Coverage Ratio	2020B Taxable Bonds	June 30 each year	1.10:1.00

As of June 30, 2021 and 2020, Howard was in compliance with the Debt Service Coverage Ratio measurements for the 2011B and 2020B Revenue Bonds.

(6) ***Scheduled Bond Repayments***

The scheduled principal repayments of bonds payable are as follows:

Aggregate Annual Maturities	2021
2022	$ 50
2023	52
2024	55
2025	877
2026	867
2027 and thereafter	27,433
Bonds Payable, gross	**$ 29,334**

Note 15 Pension and Post-retirement Benefit Plans

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

Post-retirement Plan – The Hospital provides post-retirement medical benefits and life insurance plan to employees who, at the time they retire, meet specified eligibility and service requirements. The Hospital 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 the Hospital plans which created a new prior service cost base of $8,635 to be recognized starting in fiscal year 2018. The Hospital 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 Hospital plan into an exchange. This had no impact on net obligations or net payments from the plan.

Savings Plan - The pension plans are supplemented by offering employees a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible employees received a contribution of 6% of base salary and are also permitted to contribute up to 15% of their base pay to the plan. The administration of the plan is provided by three financial administrators: Teachers Insurance and Annuity Association/College Retirement Equities Fund, American International Group Variable Annuity Life Insurance Company, and Voya Financial. These administered plans provide additional retirement benefits including the purchase of annuity contracts for eligible employees. Total costs recognized in the Statements of Operations and Changes in Net Assets (Deficit) were $5,821 and $5,637 for fiscal years ended June 30, 2021 and 2020, respectively.

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

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

Retirement Benefits	**Pension**		**Medical and Life Insurance**	
	2021	**2020**	**2021**	**2020**
Change in benefit obligations:				
Projected benefit obligation at beginning of year	**$ 197,848**	**$ 203,532**	**$ 12,135**	**$ 11,111**
Service cost	-	-	95	73
Interest cost	5,516	7,155	345	394
Actuarial (gain) loss	1,489	(2,970)	1,022	1,003
Benefits paid	(10,034)	(9,869)	(750)	(476)
Medicare Part D subsidy	-	-	-	-
Employee contributions	-	-	34	30
Plan curtailments	-	-	-	-
Plan amendments	-	-	-	-
Projected benefit obligation at end of year	**$ 194,819**	**$ 197,848**	**$ 12,881**	**$ 12,135**
Change in plan assets:				
Fair value of plan assets at beginning of year	**153,218**	**157,626**	**-**	**-**
Actual return on plan assets	39,485	588	-	-
Employer contributions	22,223	4,873	716	446
Employee contributions	-	-	34	30
Medicare Part D subsidy	-	-	-	-
Benefits paid	(10,034)	(9,869)	(750)	(476)
Fair value of plan assets at end of year	**$ 204,892**	**$ 153,218**	**$ -**	**$ -**
Net obligation	**$ 10,073**	**$ (44,630)**	**$ (12,881)**	**$ (12,135)**

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

Retirement Benefits	**Pension**		**Medical and Life Insurance**	
	2021	**2020**	**2021**	**2020**
Recognition in Statements of Operations and Net Assets (Deficit):				
Service cost	$ -	$ -	$ 95	$ 73
Recognized in operating expenses	**$ -**	**$ -**	**$ 95**	**$ 73**
Interest cost	5,516	7,155	345	394
Expected return on plan assets	(9,431)	(9,037)	-	-
Amortization of prior service cost	100	100	(570)	(570)
Amortization of actuarial loss	2,578	2,716	441	382
Net periodic benefit cost	**$ (1,237)**	**$ 934**	**$ 311**	**$ 279**
Net actuarial (gain) loss during the year	(28,565)	5,479	1,022	1,003
Amortization of prior service cost	(100)	(100)	570	570
Amortization of actuarial loss	(2,578)	(2,716)	(441)	(382)
Total recognized in other changes in unrestricted net assets (deficit) unrestricted net	**$ (31,243)**	**$ 2,663**	**$ 1,151**	**$ 1,191**
Total recognized in Statements of Operations and Changes in Net Assets (Deficit)	**$ (32,480)**	**$ 3,597**	**$ 1,462**	**$ 1,470**

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2021 and 2020:

Retirement Benefits	Pension		Medical and Life Insurance	
	2021	2020	2021	2020
Net actuarial loss	$ (58,631)	$ (78,100)	$ (5,573)	$ (4,992)
Prior service cost	(2,001)	(2,101)	783	1,353
Total	**$ (60,632)**	**$ (80,201)**	**$ (4,790)**	**$ (3,639)**

The Hospital's 2021 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 $1,966, 670 and $0, respectively.

Contributions to the pension plan of $22,223 and $4,873 were made in fiscal years ended June 30, 2021 and 2020, respectively. Contributions of $0 are expected to be paid to the pension plan during the fiscal year ended June 30, 2021.

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	
	2021	2020	2021	2020
Discount rate	2.89%	2.87%	2.95%	2.92%
Expected return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase	-	-	3.50%	3.50%

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

Actuarial Assumptions	Pension Benefits		Medical and Life Insurance	
	2021	2020	2021	2020
Discount rate	2.87%	3.62%	2.92%	3.64%
Expected return on plan assets	7.00%	7.00%	-	-
Rate of compensation increase				
To age 35	-	-	3.50%	3.50%
Thereafter	-	-	3.50%	3.50%

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

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

The Hospital's plan assets were 29.7% of total plan assets in fiscal year 2021.

Pension plan investments allocated to the Hospital as of June 30, 2021 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2021	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 6,459	$ -	$ 6,459
Commingled Funds				
Emerging Market Equity (3)	-	3,025	-	3,025
International Equity-Developed (3)	-	8,790	-	8,790
Common Stock (3)	30,294	-	-	30,294
Fixed Income				
Mortgage Backed Securities (2)	-	419	-	419
Corporate Bond (2)	-	27,401	-	27,401
Government Bond (2)	14,742	-	-	14,742
Hedge Fund				
Credit Opportunities (4)	-	2,639	-	2,639
Equity Long/short (4)	-	7,252	-	7,252
Global opportunities (4)	-	2,469	-	2,469
Mutual Fund				
Domestic Common Stock (3)	13,470	-	-	13,470
Domestic Fixed Income (2)	27,072	-	-	27,072
Private Equity and Venture Capital (4)	-	-	26,667	26,667
Private Debt (4)	-	-	14,202	14,202
Real Estate (4)	-	-	17,408	17,408
Total assets	**$ 85,578**	**$ 58,454**	**$ 58,277**	**$ 202,309**
Liabilities:				
Financial Derivatives – Option Contracts	-	(151)	-	(151)
Total liabilities	**$ -**	**$ (151)**	**$ -**	**$ (151)**
Total pension plan investments	**$ 85,578**	**$ 58,303**	**$ 58,277**	**$ 202,158**
Operating asset not subjected to fair value reporting (6)	9,901	-	-	9,901
Operating liabilities not subjected to fair value reporting (6)	(7,167)	-	-	(7,167)
Total plan assets	**$ 88,312**	**$ 58,303**	**$ 58,277**	**$ 204,892**

Level 3 investments were 28% of total plan investments.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

The Hospital's plan assets were 27.8% of total plan assets in fiscal year 2020.

Pension plan investments allocated to the Hospital as of June 30, 2020 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 2,530	$ -	$ 2,530
Commingled Funds				
Emerging Market Equity (3)	-	2,714	-	2,714
International Equity-Developed (3)	-	6,005	-	6,005
Global Fixed Income (3)	-	-	-	-
Common Stock (3)	12,827	-	-	12,827
Fixed Income				
Mortgage Backed Securities (2)	-	1,891	-	1,891
Corporate Bond (2)	-	19,526	-	19,526
Government Bond (2)	5,235	-	-	5,235
Hedge Fund				
Credit Opportunities (4)	-	3,186	-	3,186
Equity Long/short (4)	-	5,331	-	5,331
Global opportunities (4)	-	2,262	-	2,262
Mutual Fund				
Emerging Market Equity Security (3)	-	-	-	-
Domestic Common Stock (3)	13,996	-	-	13,996
Domestic Fixed Income (2)	28,524	-	-	28,524
Private Equity and Venture Capital (4)	-	-	19,597	19,597
Private Debt (4)	-	-	11,872	11,872
Real Estate (4)	-	-	16,744	16,744
Total assets	**$ 60,582**	**$ 43,445**	**$ 48,213**	**$ 152,240**
Liabilities:				
Financial Derivatives – Option Contracts	-	(1,421)	-	(1,421)
Total liabilities	**$ -**	**$ (1,421)**	**$ -**	**$ (1,421)**
Total pension plan investments	**$ 60,582**	**$ 42,024**	**$ 48,213**	**$ 150,819**
Operating asset not subjected to fair value reporting (6)	10,107	-	-	10,107
Operating liabilities not subjected to fair value reporting (6)	(7,708)	-	-	(7,708)
Total plan assets	**$ 62,981**	**$ 42,024**	**$ 48,213**	**$ 153,218**

Level 3 investments were 31% 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 the Hospital'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.

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

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

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.

During fiscal years 2021 and 2020, there were no transfers in or out of level 3 investments. Total additions to level 3 investments during 2021 and 2020 were $7,400 and $13,909, respectively. During the same period, total withdrawals were $11,762 and $11,018, respectively.

Pension Plan Investment Commitments – The Hospital's investment commitments as of June 30, 2021 and 2020 are summarized below. Additionally, some of these investments do not readily as ascertainable market values and may be subject to withdrawal restrictions and are less liquid than the Hospital's other investments.

Investments as of June 30, 2021	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 11,563	$ -	Monthly/Annually	45-90 days
Real Estate Funds	$ 16,284	$ 1,928	-	1-5 years
Common/Collective Trusts	$ 11,052	$ -	Monthly	-
Limited Partnerships	$ 38,232	$ 12,584	-	≤10 years

Investments as of June 30, 2020	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 10,787	$ -	Monthly/Annually	45-90 days
Real Estate Funds	$ 16,757	$ 3,888	-	1-5 years
Common/Collective Trusts	$ 22,736	$ -	Monthly	-
Limited Partnerships	$ 31,494	$ 15,865	-	≤10 years

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

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

Pension Plan Asset Allocation	**2021**	**2020**	**Allowable Range**
Mid-Large Cap U.S. Equity	15.4%	14.8%	7-23%
Small Cap U.S. Equity	6.3%	2.9%	1-5%
International Equity - Developed	4.3%	4.0%	7-17%
Private Equity/Venture Capital	10.0%	9.9%	2-20%
Private Debt	6.9%	6.6%	2-8%
Hedge Funds	6.0%	7.1%	1-5%
Inflation Hedging	3.0%	3.5%	1-5%
Emerging Markets Equity	3.4%	2.6%	2-8%
Real Estate	8.5%	10.1%	3-11%
Liability Hedging Assets	29.7%	38.0%	25-45%
Cash and Cash Equivalents	6.5%	0.5%	0-5%
Total	**100%**	**100%**	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2021 was 5.79%. This growth rate was assumed to decrease gradually to 4.0% in 2046 and to remain at this level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

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

Expected Future Benefit Payments	**Pension Benefits**	**Medical and Life Insurance**		
		Excluding Subsidy	**Subsidy Payments**	**Net of Subsidy**
Years ending June 30:				
2022	$ 11,740	$ 683	$ -	$ 683
2023	11,736	698	-	698
2024	11,737	706	-	706
2025	11,706	727	-	727
2026	11,633	745	-	745
2027-2031	55,732	3,827	-	3,827
Total	**$ 114,284**	**$ 7,386**	**$ -**	**$ 7,386**

The mortality retirement rates base table used Pri-2012 Mortality Table without collard adjustment projected using the MP-2020 Mortality Improvement Scale. 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 Functional Expenses

The Hospital presents its statements of operations and changes in net assets (deficit) by function. Specific administrative support costs are directly allocated based on square footage or headcount, and those costs include general administration operations and services, such as maintenance and other indirect costs. The statements of functional expenses for the fiscal years ended June 30, 2021 and 2020 are as follows:

Statements of Functional Expenses **For year ended June 30, 2021** *(in thousands)*	**Healthcare Services**	**Administrative Support**	**Total**
Operating expenses:			
Compensation	$ 159,895	$ 29,741	$ 189,636
Medical and office supplies	30,882	2,912	33,794
Repairs and maintenance	1,370	3,182	4,552
Food service costs	3,797	29	3,826
Insurance and risk management	7,751	1,938	9,689
Professional and administrative services	40,877	20,187	61,064
Utilities and telecommunications	4,400	3,379	7,779
Total operating expenses before interest, depreciation, and amortization	**248,972**	**61,368**	**310,340**
Interest expense	3,189	-	3,189
Depreciation and amortization	5,599	4,708	10,307
Interest, depreciation, and amortization	**8,788**	**4,708**	**13,496**
Total operating expenses	**$ 257,760**	**$ 66,076**	**$ 323,836**

Statements of Functional Expenses For year ended June 30, 2020 *(in thousands)*	**Healthcare Services**	**Administrative Support**	**Total**
Operating expenses:			
Compensation	$ 152,617	$ 24,066	$ 176,683
Medical and office supplies	29,178	2,571	31,749
Repairs and maintenance	855	11,389	12,244
Food service costs	3,569	677	4,246
Insurance and risk management	967	242	1,209
Professional and administrative services	30,867	14,040	44,907
Utilities and telecommunications	4,597	3,275	7,872
Total operating expenses before interest, depreciation, and amortization	**222,650**	**56,260**	**278,910**
Interest expense	3,695	-	3,695
Depreciation and amortization	7,104	5,055	12,159
Interest, depreciation, and amortization	**10,799**	**5,055**	**15,854**
Total operating expenses	**$ 233,449**	**$ 61,315**	**$ 294,764**

Note 17 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 1,305 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

Note 18 COVID-19 and the CARES Act

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The COVID-19 pandemic substantially impacted the global economy including volatility in financial markets. As a result of the COVID-19 pandemic, patient volumes and associated patient net revenues at the Hospital were significantly reduced in the months of March through June 2020. The Hospital began experiencing gradual and continued improvement in patient volumes in the summer of 2020 as stay-at-home restrictions were eased and hospitals were permitted to resume elective surgeries and procedures. Although patient volumes have continued to improve, especially for outpatient and emergency patient services, overall patient volumes at the Hospital continued to be much less than volumes seen at the Hospital prior to March 2020. The spread of new variants of COVID-19 continue to have a further impact on patient volumes as of the date of this report.

The District asked all city hospitals, including Howard University Hospital, to increase bed capacity by 125%. The Hospital reopened approximately 170 inpatient beds and added an Emergency Department triage tent to one of its main parking lots. As of June 30, 2020, the District had provided the Hospital approximately $14,239 of initial funding to cover the cost of this increased capacity and related expenses. $11,299 of this funding was expended and recognized as either income (as related to expense) or non-operating change in net asset (as related to capitalized expenditures) for the fiscal year ended June 30, 2020. The remaining $2,940 of this funding was expended and recognized as either income (as related to expense) or non-operating change in net asset (as related to capitalized expenditures) for the fiscal year ended June 30, 2021.

On March 27, 2020, President Trump signed into law the Coronavirus Aid Relief, and Economic Security (CARES) Act. The CARES Act, among other things, authorized $100 billion in funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). These funds are not required to be repaid provided the recipients attest to, and comply with, certain terms and conditions, including among other things, that the funds are being used for lost operating revenues and COVID-19 related expenses. The U.S. Department of Health and Human Services (HHS) initially distributed $20 billion in CARES Act funding based on an allocation proportional to the providers' share of 2018 net patient revenue. Distributions of the additional $50 billion were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, safety net hospitals, skilled nursing facilities and to reimburse providers for COVID-19-related treatment of uninsured patients. During the year ended June 30, 2020, the Hospital received payments of $30,210 from the general stimulus and safety net disbursements of the PRF. The Hospital recognized the entire amount of the general disbursement grants and a partial amount of the safety net disbursement totaling $10,358 during the year ended June 30, 2020, as permitted by the terms and conditions, as other income. During the year ended June 30, 2021, the Hospital received an additional $15,924 of PRF. The Hospital recognized an additional amount of $34,103 of PRF during the year ended June 30, 2021, as permitted by the terms and conditions, as other operating revenue. The Hospital also received $851 of Phase Four disbursement of the PRF after June 30, 2021. The remainder of the funding not recognized as of June 30, 2021 is recorded in deferred revenue. The funds received from HHS are subject to specific terms, conditions, and audit by HHS. Noncompliance with any of the terms or conditions is grounds for HHS to recoup some or all of the payments received by the Hospital. Management believes it has complied with the terms and conditions.

The CARES Act also made other forms of financial assistance available to healthcare providers, including through Medicare and Medicaid payment adjustments and an expansion of the Medicare Accelerated and Advanced Payment Program, which makes available accelerated payments of Medicare funds in order to increase cash flow to providers. The Hospital received $26,230 of advance payments, which were recorded as deferred revenue as of June 30, 2020. Recoupment of the funds began in April 2021 through a reduction of 10% of payment made on Medicare claims. The Hospital maintained an Accelerated and Advanced Payment Program balance in the amount of $23,491 in deferred revenue as of June 30, 2021.

Note 19 Related Party Transactions

(a) Howard University Dialysis Center

The Hospital and American Renal Associates, LLC (ARA) have a joint venture agreement for the operation of the Howard University Dialysis Center LLC (LLC). The entity was formed on March 1, 2012. The Hospital and the LLC are parties to a non-compete agreement, and the Hospital jointly guarantees the LLC's debt agreements. The Hospital accounts for its interest in the LLC using the equity method and holds a 49% equity interest in the LLC.

On March 1, 2012, the LLC commenced a lease with the Hospital 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, 2021 and 2020 (amounts in thousands)

As of fiscal years ended June 30, 2021 and 2020, the Statements of Financial Position for the LLC are as follows:

HOWARD DIALYSIS CENTER, LLC STATEMENTS OF FINANCIAL POSITION	2021	2020
Total Assets	$ 12,020	$ 10,875
Total Liabilities	3,417	$ 2,290
Equity		
Partner	5,830	5,651
Retained earning	2,773	2,934
Total Equity	**$ 8,603**	**$ 8,585**
ARA interest	$ 4,388	$ 4,378
Hospital interest	$ 4,215	$ 4,207

(b) Howard University

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

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

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

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

For Fiscal Years ended June 30, 2021 and 2020 (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	**2021**	**2020**
Operating charges allocated from the Hospital to Howard:		
Medical malpractice	$ 3,622	$ (240)
Facilities	759	709
Other	3,186	-
Total charges allocated from the Hospital to Howard	**7,567**	**469**
Operating charges allocated to the Hospital from Howard:		
Physicians' salaries	(23,140)	(22,428)
Employee tuition remission	(1,497)	(1,257)
Utilities	(3,547)	(3,547)
Other	(12,025)	(9,918)
Total charges allocated to the Hospital from Howard	**(40,209)**	**(37,150)**
Net charges allocated from the Hospital/(allocated to the Hospital):	**(32,642)**	**(36,681)**
Federal appropriation allocated to the Hospital from Howard	27,325	27,325
Total operating support provided from Howard to the Hospital	**(5,317)**	**(9,356)**
Financing support provided from Howard to the Hospital:		
Pension plan contributions made by the University	(21,975)	-
Finance lease payments made by the Hospital	(3,440)	(2,761)
Total financing support provided to the Hospital	**(25,415)**	**(2,761)**
Total support provided to the Hospital	**$ (30,732)**	**$ (12,117)**

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

Interdivisional Balances - Statements of Financial Position	**2021**	**2020**
Current assets	$ -	$ 379
Current liabilities	(17,654)	-
Long term liabilities	-	-
Total interdivisional balances	**$ (17,654)**	**$ 379**

For Fiscal Years ended June 30, 2021 and 2020 (amounts in thousands)

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

Interdivisional Transactions - Statements of Financial Position	**2021**	**2020**
Short term financing	$ -	$ -
Bond transactions, net	4,715	-
Long term financing	-	3,175
Pension contributions	21,975	-
Net charges recovered from Howard/(allocated to the Hospital)	(44,723)	38,509
Net activity during the year	(18,033)	41,684
Balance at beginning of the year	379	(41,305)
Balance at end of the year	**$ (17,654)**	**$ 379**

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

Interdivisional Balances - Asset/Liability Allocations	**2021**	**2020**
Assets:		
Deposits with trustees	$ 1,814	$ 1,330
Pension assets	204,892	153,218
Total assets	**$ 206,706**	**$ 154,548**
Liabilities:		
Reserves for self-insured liabilities	$ 58,475	$ 51,103
Finance lease obligations	21,324	22,426
Bonds payable, net	28,544	26,061
Total liabilities	**$ 108,343**	$ **99,590**

(c) Management Services

As of June 8, 2019, Howard University engaged Eisner Amper to provide interim Chief Financial Officer services, finance support services, revenue cycle management reengineering and oversight services, project management services, and coding review services. The term of this agreement extended through June 30, 2020 with either party able to extend or terminate the agreement with ninety days' notice on or after September 30, 2019. The agreement was extended beyond June 30, 2020, with Eisner Amper continuing to provide revenue cycle management reengineering and oversight services, project management services, and coding review services. The agreement was terminated as of December 31, 2020.

Howard University signed a three-year Management Service Agreement (MSA) with Adventist Healthcare, Inc. effective January 31, 2020. The term of the agreement shall extend for three years unless terminated sooner as provided under the MSA, with an automatic renewal and extension after the initial term for additional one (1) year terms unless either party provides the other with written notice of its intention to not renew the MSA at least one hundred eighty days prior to the expiration of the then current term. Adventist Healthcare, Inc. commenced full performance effective February 17, 2020, under the MSA for day-to-day operations of the Hospital under the oversight of a joint Howard and Adventist Healthcare, Inc. Management Committee, while Howard continues to be the licensed operator of the Hospital.

Note 20 Subsequent Events

The Hospital performed an evaluation of subsequent events through March 2, 2022, which is the date the financial statements were issued. Other than the event noted below, management is not aware of any additional events that affect the financial statements as of June 30, 2021.

(a) An additional $851 of stimulus funding has been received subsequent to year-end. The full impact of new variants of the COVID-19 outbreak continues to evolve as of the date of this report. As such, the Hospital is uncertain as to the full magnitude that the pandemic will have on the Hospital's financial condition, liquidity, and future results of operations. The Hospital continues to actively monitor the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. The Hospital also continues to evaluate the opportunities to submit for additional funding from all available sources, including the Federal Emergency Management Agency (FEMA). Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Hospital is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

(b) On June 11, 2021, HHS issued a Post-Payment Notice of Reporting Requirements for the PRF that were disbursed under the CARES Act. This notice provided guidance on new deadlines for use of funds received during specified Payment Received Periods and reporting requirements associated with the Payment Received Periods. Organizations that received one or more payments exceeding $10,000 in the aggregate during the period of April 10, 2020 to June 30, 2020 are required to provide a first report by September 30, 2021 for the use of funds as of June 30, 2021. A second report for organizations that received one or more payments exceeding $10,000 in the aggregate during the period of July 1, 2020 to December 31, 2020 are required to provide a second report by March 31, 2022 for the use of funds as of December 31, 2021. As of the date of this report, the Hospital has met all of the use of funds reporting requirements. Management will continue to evaluate and monitor compliance with the terms and conditions through June 30, 2022.