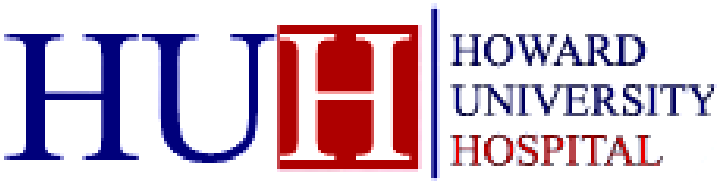

The Howard University Hospital

(an unincorporated operating segment of The Howard University)

Financial Statements

June 30, 2019 and 2018

BDO

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Tel: 703-893-0600
Fax: 703-893-2766
www.bdo.com

8401 Greensboro Drive
Suite 800
McLean, VA 22102

Independent Auditor's Report

Board of Trustees of
The Howard University

We have audited the accompanying financial statements of The Howard University Hospital (the "Hospital"), an unincorporated operating segment of The Howard University ("Howard"), which comprise the Statements of Financial Position as of June 30, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Howard University Hospital as of June 30, 2019 and 2018, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in the year ended June 30,2019, the Hospital adopted Accounting Standards Updates ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), and ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14").

In addition, as discussed in Note 1 to the financial statements, in the year ended June 30, 2019, the Hospital adopted a change in accounting principle with respect to the recognition of contributed works of art and historical treasures. Our opinion is not modified with respect to these matters.

BDO USA, LLP

January 31, 2020

Statements of Financial Position **As of June 30:** *(in thousands)*	**2019**	**2018**
Current assets:		
Cash and cash equivalents	$ 20,722	$ 9,461
Deposits with trustees	2	625
Patient receivables, net	31,431	26,946
Contract assets	5,529	-
Inventories and prepaid	5,149	6,208
Other receivables	1,852	1,359
Total current assets	**64,685**	**44,599**
Non-current assets:		
Deposits with trustees	1,428	1,747
Third party & insurance recoveries, net	11,714	10,890
Finance right of use assets, net	22,493	22,286
Long-lived assets, net	52,111	57,958
Other non-current assets, net	4,970	4,941
Total non-current assets	**92,716**	**97,822**
Total assets	**$ 157,401**	**$ 142,421**
Current liabilities:		
Accounts payable and accrued expenses	$ 37,563	$ 29,341
Accrued post-retirement benefits	581	614
Reserve for self-insured liabilities	920	1,421
Bonds payable, net	1,267	772
Finance lease obligations	2,714	3,376
Due to Howard University	805	805
Other liabilities	23	-
Total current liabilities	**43,873**	**36,329**
Non-current liabilities:		
Accrued post-retirement benefits	10,530	9,645
Underfunded defined benefit pension plan	45,906	33,748
Reserve for self-insured liabilities	55,091	56,699
Bonds payable, net	26,017	27,284
Finance lease obligations	21,637	20,327
Due to Howard University	40,500	25,521
Total non-current liabilities	**199,681**	**173,224**
Total liabilities	**243,554**	**209,553**
Net assets (deficit):		
Without donor restrictions	(131,153)	(112,132)
Inter-divisional transfer	45,000	45,000
Total net assets (deficit)	**(86,153)**	**(67,132)**
Total liabilities and net assets (deficit)	**$ 157,401**	**$ 142,421**

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)*	**2019**	**2018**
Patient service revenue, net	$ 238,161	$ 244,269
Less: bad debt	-	36,292
Total patient service revenue, net	**238,161**	**207,977**
Federal appropriation	27,325	27,325
Other income	6,052	6,350
Total operating revenues	**271,538**	**241,652**
Healthcare services	219,097	202,725
Administrative support	52,183	38,447
Total operating expenses	**271,280**	**241,172**
Operating revenues over operating expenses	**258**	**480**
Realized investment income	-	186
Excess of revenues over expenses	**258**	**666**
Change in funded status of defined benefit pension plan	(15,141)	3,973
Change in obligation for post retirement benefit plan	(4,138)	(2,760)
Change in net assets (deficit)	**$ (19,021)**	**$ 1,879**

The accompanying notes are an integral part of these financial statements

Statements of Cash Flows **For Fiscal Years Ended June 30:** *(in thousands)*	**2019**	**2018**
Cash flows from operating activities		
Change in net assets (deficit)	**$ (19,021)**	**$ 1,879**
Adjustment to reconcile change in net assets to net cash and cash equivalents provided by/(used in) operating activities:		
Depreciation and amortization	12,842	8,251
Bond discount amortization	24	24
Bond issuance costs	19	19
Provision for bad debts	-	36,292
Increase (decrease) in pension/post retirement liability	13,010	(7,546)
Changes in net assets adjusted for non-cash operating items	**6,874**	**38,919**
Change in receivables (excluding notes)	(11,331)	(23,181)
Change in inventory and prepaid	1,059	(687)
Change in other non-current assets	(29)	303
Change in deposits with trustees	942	(241)
Change in accounts payable and accrued expenses	8,222	2,991
Change in reserve for self-insured liabilities	(2,109)	(7,863)
Change in other liabilities	23	(42)
Net cash and cash equivalents provided by operating activities	**3,651**	**10,199**
Cash flows from investing activities		
Purchases and renovations of long-lived assets	(2,970)	(4,641)
Net cash and cash equivalents (used in) investing activities	**(2,970)**	**(4,641)**
Cash flows from financing activities		
Payment on bonds payable	(815)	(626)
Principal payments on finance lease obligation	(3,609)	(5,387)
Change in finance right of use assets	25	(287)
Change in due to (from) Howard University	14,979	(3,050)
Net cash and cash equivalents provided by (used in) financing activities	**10,580**	**(9,350)**
Net increase (decrease) in cash and cash equivalents	**11,261**	**(3,792)**
Cash and cash equivalents at beginning of year	9,461	13,253
Cash and cash equivalents at end of year	**$ 20,722**	**$ 9,461**
Supplemental cash flow information:		
Net cash paid for interest	**$ 3,769**	**$ 4,126**
Supplemental non-cash investing information:		
Acquisition of equipment under financing leases, net	**$ 5,719**	**$ 1,524**

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, 2019 and 2018.

(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 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 Accounting Standards Codification (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 August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, effective for fiscal years beginning after December 15, 2019. ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. The Hospital is evaluating the impact of ASU 2018-13.

In August 2018, the FASB issued Accounting Standards Update ("ASU") 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*, effective for annual periods beginning after December 15, 2020. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The Hospital is evaluating the impact of ASU 2018-14.

In August 2018, the FASB issued ASU 2018-15*, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*, effective for annual periods beginning after December 15, 2020. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The Hospital is evaluating the impact of ASU 2018-15.

In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements*, effective for fiscal years beginning after December 15, 2020. The ASU aligns the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value (in Topic 820, *Fair Value Measurement*) should be applied. The Hospital is evaluating the impact of ASU 2019-01.

(f) ***Recently Adopted Accounting Pronouncements***

In August 2016, the FASB issued ASU No. 2016-14, Not-For Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"). The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. As a result of adopting the pronouncement, the Hospital changed its presentation of net assets classes and expanded the footnote disclosure as required, classified capital gifts for construction as net assets without donor restrictions when the associated long-lived asset is place in service and netted investment expenses against investment returns in the statements of activities. The Hospital opted to adopt the modified retrospective basis and not disclose liquidity and availability information for fiscal year 2018 as permitted under the ASU in the year of adoption. Lastly, the Hospital has opted to disclose functional expenses by nature for fiscal year 2019 and 2018, respectively (see Note 16).

In May 2014, the FASB issued ASC 606, *Revenue Recognition from Contracts with Customers* (ASC 606). The core principle of guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Hospital adopted ASC 606 on July 1, 2018 and elected the modified retrospective approach for implementation. See Note 1 (j) below. The adoption of this ASU did not materially impact the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), This ASU was issued to standardize how grants and other contracts are classified across the sector for resource recipients and resource providers. The standard assists these types of entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entitles*, or as exchange transactions (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Hospital elected to early adopt this standard in fiscal year 2019 using the prospective approach to adoption and there was no material impact to the financial statements or required further disclosure.

In December 2016, the FASB issued ASU number 2016-18 (Topic 230), Statement of Cash Flows. The ASU provides guidance on all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Hospital adopted this standard in fiscal year 2019. The Hospital has not recorded any cash restrictions during any of the years presented.

In January 2016, the FASB issued ASU number 2016-01 (Subtopic 825-10), Financial Instruments—Overall. The ASU provides guidance on certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Board also addressing measurement of credit losses on financial assets in a separate project. The updates affect all entities that hold financial assets or owe financial liabilities. The Hospital adopted this standard in fiscal year 2019 and there was no material impact that required further disclosure.

(g) Changes in Accounting Principles

Prior to fiscal year 2019, the Hospital had elected to not recognize or capitalize contributions of works of art, historical treasures, and similar assets held as part of collections. During fiscal year 2019, the Hospital changed its accounting policy and will capitalize and recognize works of art on the statements of financial position. The Hospital has adopted the prospective approach for recording the works of art under ASC 250-10-45-7 and 9(c), *Accounting Changes and Error Corrections*. ASC 250 provides guidance on the accounting for and reporting of accounting changes and error corrections. At year-end, the Hospital has not received any works of art as contribution revenue.

(h) 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, 2019 and 2018, the Hospital did not have any net assets with donor restrictions.

(i) Excess (Deficit) of Revenues Over (Under) 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.

(j) Receivables and Revenue Recognition

Revenue

The Hospital adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) on July 1, 2018, using the modified retrospective approach. As a result, the Hospital updated its revenue recognition accounting policies as outlined below. The accompanying statement of operations and changes in net assets (deficit) for the year ended June 30, 2019, is presented in accordance with ASC 606 and ASC Subtopic 958-605 *Not for Profit Entities - Revenue* (where applicable), while prior period amounts are not adjusted and continue to be recorded in accordance with historic accounting guidance, namely ASC 605, Revenue Recognition.

Subsequent to the adoption of ASC 606, 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.

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

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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.

Judgements

The Hospital earns revenue primarily through providing health care services to patients. The following tables show the disaggregation and the adjustments required to return certain June 30, 2019 financial statement contract balances to legacy GAAP:

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS (DEFICIT)	As Presented	Legacy GAAP	Adjustments
Patient service revenue, net	$ 238,161	$ 286,311	$ (48,150)
Bad debt	-	(48,150)	48,150
Total Adjustments – Statement of Operations and Changes in Net Assets (Deficit)			**$ -**

STATEMENT OF FINANCIAL POSITION	As Presented	Legacy GAAP	Adjustments
Patient receivables, net	$ 31,431	$ 36,960	$ (5,529)
Contract assets	5,529	-	5,529
Total Adjustments – Statement of Financial Position			**$ -**

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 most significant change from the adoption of the new standard relates to the Hospital's estimation for the allowance for doubtful accounts. Under the previous standards, the Hospital estimated amounts not expected to be collected based upon historical

experience, which was reflected as provision for bad debts and deducted from net patient service revenue to arrive at net patient service revenue less provision for bad debts. Under the new standard, those amounts will continue to be recognized as a reduction to net patient service revenue, however, not reflected separately as provision for bad debts, and accordingly the caption net patient service revenue less provision for bad debts will no longer be presented on the Statements of Operations and Changes in Net Assets (Deficit). 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'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.

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 Hospital estimates collections from self-pay accounts to be 5% of billed charges. Based upon the Hospital's historical experience, all accounts that are older than 270 days from discharge are fully reserved and there is no expected payment.

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 eighteen-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. For the year ended June 30, 2019 estimated explicit price concessions are $509,800. The June 30, 2019 estimated implicit price concessions are $68,044. These amounts have been recorded as reductions to the Hospital's revenues and patient accounts receivable balances.

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, 2019 and 2018, respectively, the Hospital received $27,325 and $27,325, approximately 10% and 11%, of its revenue support from the Federal appropriation.

(k) 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.

(l) 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.

(m) 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.

(n) Long-Lived Assets and Finance Right-of-Use Assets

Long-lived assets include property, plant, equipment, art and historical treasures for the Hospital. Property, plant, equipment is stated at cost or at fair value if received by gift, less accumulated depreciation and amortization. Property, plant, 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.

During fiscal year 2019, the Hospital changed its accounting policy (see Note 1 g) and will capitalize and recognize purchased and donated works of art and historical treasures on the balance sheet. The Hospital did not have any such activities during the fiscal year ended June 30, 2019.

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.

(o) ***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.

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

The reserve for self-insured liabilities is comprised primarily of amounts accrued for asserted medical malpractice and workers' compensation claims and includes estimates of the ultimate cost to resolve such claims. 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.

(q) ***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 a liability. The Hospital follows the Internal Revenue Service (IRS) guidelines in the administration of the Plan.

(r) ***Compensated Absences***

The Hospital records a liability for amounts due to employees for future absences, which are attributable to services performed in the current and prior periods and subject to maximum carryover. This obligation is recognized on the Statements of Financial Position as part of accounts payable and accrued expenses. At fiscal years ended June 30, 2019 and 2018, the obligation was $1,999 and $2,016, respectively.

(s) ***Reclassifications***

Certain prior year amounts have been reclassified to conform to the current year's presentation. The Hospital adopted ASU 2016-14 in July 2018. The ASU modifies Not-for Profit (NFP) reporting requirements by changing the way NFPs classify net assets and results in significant changes to financial reporting and disclosures for NFPs.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

The standard requires the Hospital to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements. The guidance also enhances disclosures about the composition of net assets, liquidity and expenses by both natural and functional classification. For the fiscal years ended June 30, 2019, and 2018, there were no net assets with donor restrictions, respectively.

Note 2 Liquidity and Availability of Resources

As of June 30, 2019, financial assets and liquidity resources that are available within one year for general expenditures consists of the following:

Financial Assets and Liquidity Resource	2019
Financial Assets:	
Cash and cash equivalents	$ 20,722
Patient receivables, net	31,431
Contract assets	5,529
Other receivables	1,852
Total financial assets and liquidity resources available within one year	**$ 59,534**

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 University has committed to funding the Hospital as required to meet obligations and continue to operate through February 28, 2021.

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 charity care program, DC Alliance. The total costs foregone for services furnished under the Hospital's charity care policy and the DC Alliance program were $4,143 and $3,620 for fiscal years ended June 30, 2019 and 2018, respectively.

Total uncompensated care costs under all of the Hospital's clinical services, which includes implicit price concessions on self-pay accounts (bad debt) as well as charity care, for fiscal years ended June 30, 2019 and 2018 were $59,888 and $46,737, respectively.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

Note 4 Insurance and Risk Management

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

The self-insured medical malpractice program covers professional liability costs up to $7,500 per occurrence depending on the cause. In addition, there are two layers of excess insurance coverage. The first layer of the excess insurance coverage is up to $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.

Note 5 Concentration of Credit Risk

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

Payor Mix	2019	2018
Medicare	6%	11%
Medicaid	38%	37%
Blue Cross	3%	2%
Other third-party payors	17%	15%
Patients	36%	35%
	100%	**100%**

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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, 2019:

Inhouse Receivables - Contract Assets	2019
Inhouse charges	$ 19,510
Price concessions	(13,981)
Net contract assets	**$ 5,529**

Note 7 Accounts Payable and Accrued Expenses

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

Accounts Payable and Accrued Expenses	2019	2018
Vendor invoices	$ 26,416	$ 19,329
Accrued salaries and wages	7,798	6,681
Accrued employee benefits	863	817
Accrued annual leave	1,999	2,016
Accrued interest	487	498
Total	**$ 37,563**	**$ 29,341**

Note 8 Deposits with Trustees and Self-insured Liabilities

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

	Dedicated Assets		Estimated Liability	
	2019	2018	2019	2018
Debt service reserve fund	$ 1,428	$ 1,747	NA	NA
Professional and general	-	-	$ 45,371	$ 46,979
Workers' compensation	2	4	9,721	9,721
Health Insurance	-	621	919	1,420
Total	**$ 1,430**	**$ 2,372**	**$ 56,011**	**$ 58,120**

NA = Not applicable

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

As required by the 2011 Revenue Bonds, Howard maintains a debt service reserve fund in an amount equal to or greater than the debt service fund requirement of $12,634 for all fiscal years reported. The portion of this fund allocated to the Hospital in fiscal years ended June 30, 2019 and 2018 is $1,428 and $1,747, 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, 2019. It is the opinion of management based on the advice of actuaries and legal counsel that the estimated malpractice costs accrued at June 30, 2019 and 2018 of approximately $45,371 and $46,979, 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, 2019 and 2018.

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

Professional Liability	**2019**	**2018**
Beginning Balance	$ 46,979	$ 53,975
Malpractice claims expense	2,927	6,153
Settlement payments	(4,535)	(13,149)
Ending Balance	**$ 45,371**	**$ 46,979**

(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, 2019, workers' compensation liabilities are being satisfied as claims arise. For fiscal years ended June 30, 2019 and 2018, the Hospital maintained $6,340 and $6,248 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, 2019 and 2018 expenses related to workers' compensation were $1,237 and $1,873 respectively and are reflected in employee benefits.

The total estimated unlimited unpaid amount for future workers' compensation liability claims was approximately $15,905 and $17,802 at June 30, 2019 and 2018, respectively, and includes liabilities for claims covered under existing insurance policies. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. The net liability recorded on the accompanying Statements of Financial Position in reserves for self-insured liabilities was $9,720 and $9,720 at June 30, 2019 and 2018, respectively. Estimated claims for which payments will be covered under existing insurance policies were $6,184 and $8,081 at June 30, 2019 and 2018, respectively, net of allowances for uncollectible amounts and are reflected on the Statements of Financial Position in third party and insurance recoveries, net.

(d) ***Health Insurance***

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, 2019 and 2018 is approximately $920 and $1,421, 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.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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, 2019	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 20,722	$ -	$ 20,722
Deposits with Trustees (2)			
Cash and Cash equivalent (1)	2	-	2
Money Market Fund (1)	-	1,428	1,428
Total Asset (non-investment)	**$ 20,724**	**$ 1,428**	**$ 22,152**

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

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

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

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

	2019		2018	
	Carrying Amounts	**Fair Value**	**Carrying Amounts**	**Fair Value**
Assets:				
Cash and Cash Equivalents	$ 20,722	$ 20,722	$ 9,461	$ 9,461
Deposits with Trustees	$ 1,430	$ 1,430	$ 2,372	$ 2,372
Third-Party and Insurance Recoveries	$ 11,714	$ 11,714	$ 10,890	$ 10,890
Liabilities:				
Bonds Payable	$ 27,284	$ 31,069	$ 29,004	$ 33,438

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, 2019 and 2018, the Hospital received Medicare revenues attributable to DSH of $10,212 and $11,519, respectively.

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, 2019 and 2018, the Hospital received Medicaid revenues attributable to DSH of $50,461 and $38,755, 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.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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	2019	2018
Medicare	$ 69,513	$ 87,662
Medicaid	486,319	403,432
Blue Cross and others	191,190	153,196
Gross Revenues	**747,022**	**644,290**
Third-party payor settlement revenue	68,983	60,309
Contractual allowances and discounts	-	(449,885)
Price concessions	(577,844)	-
Charity services	-	(10,445)
Bad debt	-	(36,292)
Total Net Patient Service Revenue	**$ 238,161**	**$ 207,977**

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	2019	2018
Inpatient services	$ 427,834	$ 352,223
Outpatient services	200,910	186,289
Emergency care services	118,278	105,778
Total Gross Revenues	**$ 747,022**	**$ 644,290**

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
Medicaid 2018-2019

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in a decrease in net patient service revenues of approximately $1,271 and $1,163 for fiscal year ended June 30, 2019 and 2018:

Third-party settlement revenue	2019	2018
Medicare pass-through	$ 10,212	$ 11,519
Disproportionate Share Hospital	50,461	38,755
Graduate Medical Education	8,195	9,682
Other	115	353
Total third-party settlement revenue	**$ 68,983**	**$ 60,309**

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

Additionally, during 2019, the Hospital reimbursed $4,300 to a third-party managed care health plan in the DC Medicaid program for past graduate medical education payments received for the period October 1, 2015 through April 30, 2018. This was recorded as a decrease in net patient service revenue for the fiscal year ending June 30, 2019 due to the change in estimate for graduate medical education reimbursement.

Note 12 Long-Lived Assets, net

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

Property, Plant and Equipment, net	2019	2018
Land and land improvements	$ 5,418	$ 5,408
Buildings and building improvements	153,781	153,392
Furniture and equipment	148,339	146,483
Software and computer hardware	43,026	42,052
Construction in progress	199	457
Long-lived assets, gross	350,763	347,792
Accumulated depreciation	(298,652)	(289,834)
Long-lived assets, net	**$ 52,111**	**$ 57,958**

Depreciation expense for the fiscal years ended June 30, 2019 and 2018 were $8,817 and $3,140, respectively.

Note 13 Leases

Lease Obligations

The classification criteria in ASC 842 for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases under ASC 840. Under ASC 842, a lessee finance lease exists when any of the following criteria are met at lease commencement:

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

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

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

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

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

A lessor would classify a lease having any of the above characteristics as a sales-type lease.

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

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 2023, and the chiller plant that extends through 2031, in the amounts of $24,351 and $23,703, respectively at fiscal years ended June 30, 2019 and 2018. 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, 2019 and 2018 (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	2019	2018
Right of use assets – Financing	$ 64,441	$ 58,084
Accumulated amortization	(41,948)	(35,798)
Right of use assets, net	**$ 22,493**	**$ 22,286**

Amortization expense for the fiscal years ended June 30, 2019 and 2018 was $4,006 and $5,093, respectively. The discount rates used in measuring the finance right-of-use assets and liabilities were either the rates implicit in the lease or the Hospital's incremental borrowing rate.

At June 30, 2019, 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
2020	$ 4,421
2021	4,402
2022	3,568
2023	3,149
2024	2,645
2025 and thereafter	18,191
Obligation, gross	**36,376**
Amounts representing interest rates from 2% to 10%	(12,025)
Total Lease Obligations, net	**$ 24,351**

At June 30, 2019, 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
2020	$ 1,707
2021	1,562
2022	1,398
2023	1,274
2024	1,158
2025 and thereafter	4,926
Total Lease Obligations - Interest	**$ 12,025**

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

Lease Expense	2019	2018
Finance lease expense:		
Amortization of right to use assets	$ 4,006	$ 5,299
Interest on lease liabilities	1,711	2,008
Total Lease Expense	**$ 5,717**	**$ 7,307**

Other Information	2019	2018
Cash paid for amounts included in the measurements of lease liabilities for finance leases:		
Financing cash flows	$ 3,609	$ 5,614
Right of use (ROU) assets obtained in exchange for lease liabilities:		
Finance leases	$ 5,719	$ 1,397
Weighted-average remaining lease term (in years):		
Finance leases	10.04	10.81
Weighted-average discount rate:		
Finance leases	7.06%	7.84%

Lease Income

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

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

For Fiscal Years ended June 30, 2019 and 2018 (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, 2019 and 2018 was $1,673 and $1,575, 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
2020	$ 64
2021	64
2022	64
2023	64
2024	21
Total Minimum Lease Income	**$ 277**

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	2019	2018
District of Columbia issues:		
2010 Revenue bonds, 5.05% Serial due 2010 through 2025	$ 336	$ 379
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	12,084	12,084
2011B Revenue bonds 4.31% to 7.63% Serial due 2016 through 2036	15,768	16,541
Total bonds payable, gross	**$ 28,188**	**$ 29,004**
Bond premiums (discounts)	(522)	(546)
Bond issuance costs	(382)	(402)
Current portion bonds payable	(1,267)	(772)
Total long term bonds payable, net	**$ 26,017**	**$ 27,284**

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

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

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

In April 2011, Howard issued $225,250 of tax-exempt revenue bonds (Series 2011A), of which $12,084 was allocated to the Hospital, and $65,065 of taxable revenue bonds (Series 2011B), of which $16,540 was allocated to the Hospital, to refund the Series 1998 and Series 2006 Bonds and to finance new capital improvements. The interest rate on the tax-exempt bonds range from 5.00% to 6.50% and the bonds mature between 2020 and 2041. The taxable bonds bear interest between 4.31% and 7.63% and the bonds mature between 2016 and 2036. The average coupon is 6.57%.

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

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

The Series 2011B Bonds are subject to optional redemption prior to maturity in whole or in part on any Business Day at the Make-Whole Redemption Price at the direction of Howard.

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

The estimated fair value of the Hospital's bond allocation is determined based on quoted market prices. At June 30, 2019 and 2018, the estimated fair value was approximately $31,069 and $33,438, 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

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding tax-exempt debt.

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

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

In 2015, Howard, as required by the terms of the Multi-bank Credit Agreement, has granted lenders a security interest in collateral in the form of cash and securities delivered to their collateral agent. Howard will pledge additional collateral when the collateral value is less than the minimum collateral amount. The collateral agent is not allowed to re-pledge or sell the collateral securities. At June 30, 2015, the carrying value of the pledged securities was $133,903 and was reported in Howard's endowment investments. There were no pledged securities at years ended June 30, 2019 or 2018.

At June 30, 2019 and 2018, Howard was compliant with the Liquidity Ratio measurements and with the Debt Service Coverage Ratio measurements for the 2011 Revenue Bonds.

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

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

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

The scheduled principal repayments of bonds payable are as follows:

Aggregate Annual Maturities	
2020	$ 1,267
2021	961
2022	392
2023	417
2024	445
2025 and thereafter	24,706
Bonds Payable, gross	**28,188**
Bond premiums (discounts)	(522)
Bond issuance costs	(382)
Total Bonds Payable, net	**$ 27,284**

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 $5,294 and $3,668 for fiscal years ended June 30, 2019 and 2018, 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, 2019 and 2018 (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	
	2019	2018	2019	2018
Change in benefit obligations:				
Projected benefit obligation at beginning of year	**$ 189,755**	**$ 195,628**	**$ 10,259**	**$ 11,523**
Service cost	-	-	58	64
Interest cost	8,079	7,707	438	454
Actuarial (gain) loss	17,897	(3,057)	1,288	(1,190)
Benefits paid	(12,199)	(10,523)	(968)	(709)
Medicare Part D subsidy	-	-	-	-
Employee contributions	-	-	36	117
Plan curtailments	-	-	-	-
Plan amendments	-	-	-	-
Projected benefit obligation at end of year	**$ 203,532**	**$ 189,755**	**$ 11,111**	**$ 10,259**
Change in plan assets:				
Fair value of plan assets at beginning of year	**156,007**	**155,598**	**-**	**-**
Actual return on plan assets	9,641	7,686	-	-
Employer contributions	4,177	3,246	932	591
Employee contributions	-	-	36	117
Medicare Part D subsidy	-	-	-	-
Benefits paid	(12,199)	(10,523)	(968)	(708)
Fair value of plan assets at end of year	**$ 157,626**	**$ 156,007**	**$ -**	**$ -**
Net obligation	**$ (45,906)**	**$ (33,748)**	**$ (11,111)**	**$ (10,259)**

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

Retirement Benefits	Pension		Medical and Life Insurance	
	2019	2018	2019	2018
Recognition in Statements of Operations and				
Amortization of prior service cost	$ 100	$ 100	$ (3,120)	$ (4,408)
Amortization of actuarial loss	1,965	2,129	270	458
Total amortization	**$ 2,065**	**$ 2,229**	**$ (2,850)**	**$ (3,950)**
Service cost	-	-	58	64
Interest cost	8,079	7,707	438	453
Expected return on plan assets	(8,950)	(9,000)	-	-
Curtailment recognition of prior service credit	-	-	-	-
Recognized in operating expenses	**$ 1,194**	**$ 936**	**$ (2,354)**	**$ (3,433)**
Amortization of prior service cost	(100)	(100)	3,120	4,408
Amortization of actuarial loss	(1,965)	(2,129)	(270)	(458)
Total amortization	**$ (2,065)**	**$ (2,229)**	**$ 2,850**	**$ 3,950**
Net actuarial (gain) loss during the year	17,206	(1,744)	1,288	(1,190)
Curtailment recognition of prior service credit	-	-	-	-
Total recognized in other changes in unrestricted net assets (deficit)unrestricted net	**$ 15,141**	**$ (3,973)**	**$ 4,138**	**$ 2,760**
Total recognized in Statements of Operations and Changes in Net Assets (Deficit)	**$ 16,335**	**$ (3,037)**	**$ 1,784**	**$ (673)**

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2019 and 2018:

Retirement Benefits	Pension		Medical and Life Insurance	
	2019	2018	2019	2018
Net actuarial loss	**$ (83,283)**	**$ (68,042)**	$ (4,371)	$ (3,353)
Prior service cost	(2,201)	(2,301)	1,923	5,043
Total	**$ (85,484)**	**$ (70,343)**	**$ (2,448)**	**$ 1,690**

The Hospital's 2019 portion of the estimated net actuarial loss, prior service cost, and transition obligation for the pension and post-retirement plans that will be accounted for as a part of net periodic benefit cost over the next fiscal year are $2,716 and $188, respectively.

Contributions to the pension plan of $4,177 and $3,246, were made in fiscal years ended June 30, 2019 and 2018, respectively. Contributions of $5,128 are expected to be paid to the pension plan during the fiscal year ended June 30, 2020.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

Actuarial Assumptions	Pension Benefits		Medical and Life Insurance	
	2019	2018	2019	2018
Discount rate	3.62%	4.39%	3.64%	4.40%
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	
	2019	2018	2019	2018
Discount rate	4.39%	4.05%	4.40%	4.05%
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, 2019 and 2018 (amounts in thousands)

The Hospital's plan assets were 29.2% of total plan assets in fiscal year 2019. Pension plan investments allocated to the Hospital as of June 30, 2019 were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 4,121	$ -	$ 4,121
Commingled Funds				
Emerging Market Equity (3)	-	2,573	-	2,573
International Equity-Developed (3)	-	12,870	-	12,870
Global Fixed Income (3)	2,683	-	-	2,683
Common Stock (3)	13,498	-	-	13,498
Fixed Income				
Mortgage Backed Securities (2)	-	4,127	-	4,127
Corporate Bond (2)	-	20,757	-	20,757
Government Bond (2)	24,657	-	-	24,657
Hedge Fund				
Credit Opportunities (4)	-	8,636	-	8,636
Global opportunities (4)	-	1,998	-	1,998
Mutual Fund				
Emerging Market Equity Security (3)	1,095	-	-	1,095
Domestic Common Stock (3)	8,266	-	-	8,266
Domestic Fixed Income (2)	20,800	-	-	20,800
Private Equity and Venture Capital (4)	-	-	17,391	17,391
Private Debt (4)	-	-	10,937	10,937
Real Estate (4)	-	-	17,524	17,524
Total assets	**$ 70,999**	**$ 55,082**	**$ 45,852**	**$ 171,933**
Liabilities:				
Financial Derivatives – Option Contracts	-	(735)	-	(735)
Total liabilities	**$ -**	**$ (735)**	**$ -**	**$ (735)**
Total pension plan investments	**$ 70,999**	**$ 54,347**	**$ 45,852**	**$ 171,198**
Operating asset not subjected to fair value reporting (6)	16,342	-	-	16,342
Operating liabilities not subjected to fair value reporting (6)	(29,914)	-	-	(29,914)
Total plan assets	**$ 57,427**	**$ 54,347**	**$ 45,852**	**$ 157,626**

Level 3 investments were 30% of total plan investments.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (1)	$ -	$ 8,283	$ -	$ 8,283
Commingled Funds				
Emerging Market Equity (3)	-	2,077	-	2,077
International Equity-Developed (3)	-	27,232	-	27,232
Commodity Inflation Hedging (5)	-	3,427	-	3,427
Common Stock (3)	15,611	-	-	15,611
Fixed Income				
Mortgage Backed Securities (2)	-	1,291	-	1,291
Corporate Bond (2)	-	14,517	-	14,517
Government Bond (2)	15,717	-	-	15,717
Hedge Fund				
Credit Opportunities (4)	-	2,048	-	2,048
Equity Long/short (4)	-	2,877	-	2,877
Event Driven (4)	-	-	3	3
Global opportunities (4)	-	1,792	-	1,792
Multi-strategy (4)	-	-	1	1
Mutual Fund				
Emerging Market Equity Security (3)	2,500	-	-	2,500
Domestic Common Stock (3)	11,604	-	-	11,604
Domestic Fixed Income (2)	20,439	-	-	20,439
Private Equity and Venture Capital (4)	-	-	19,246	19,246
Real Estate (4)	-	-	7,952	7,952
Total assets	**$ 65,871**	**$ 63,544**	**$ 27,202**	**$ 156,617**
Liabilities:				
Financial Derivatives – Option Contracts	$ -	$ 71	$ -	$ 71
Total liabilities	**$ -**	**$ 71**	**$ -**	**$ 71**
Total pension plan investments	**$ 65,871**	**$ 63,615**	**$ 27,202**	**$ 156,688**
Operating asset not subjected to fair value reporting (6)	8,821	-	-	8,821
Operating liabilities not subjected to fair value reporting (6)	(9,502)	-	-	(9,502)
Total plan assets	**$ 65,190**	**$ 63,615**	**$ 27,202**	**$ 156,007**

Level 3 investments were 17% 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

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

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

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

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

The following table presents changes in amounts included in the Statements of Financial Position for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2019:

Changes in Level 3 Security Value year ended June 30, 2019	**Private Debt, Equity and Venture Capital**	**Hedge Fund**	**Real Estate**	**Total**
Balance July 1, 2018	$ 19,246	$ 4	$ 7,952	$ 27,202
Gain and Loss (Realized and Unrealized)	2,328	(4)	1,783	4,107
Purchases	16,937	-	8,918	25,855
Transfer Out and Sales	(10,183)	-	(1,129)	(11,312)
Balance June 30, 2019	**$ 28,328**	**$ (0)**	**$ 17,524**	**$ 45,852**
Change in unrealized investments held	**$ (8)**	**$ (0)**	**$ 1,413**	**$ 1,405**

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

The following table presents changes in amounts included in the Statements of Financial Position for financial instruments classified within Level 3 of the valuation hierarchy previously defined, at June 30, 2018.

Changes in Level 3 Security Value year ended June 30, 2018	Equity Private and Venture Capital	Hedge Fund	Real Estate	Total
Balance July 1, 2017	$ 19,552	$ 14	$ 4,567	$ 24,133
Gain and Loss (Realized and Unrealized)	1,810	(10)	1,090	2,890
Purchases	2,720	-	3,799	6,519
Transfer Out and Sales	(4,836)	-	(1,504)	(6,340)
Balance June 30, 2018	**$ 19,246**	**$ 4**	**$ 7,952**	**$ 27,202**
Change in unrealized investments held	**$ 658**	**$ (5)**	**$ 616**	**$ 1,269**

Pension Plan Investment Commitments – The Hospital's investment commitments as of June 30, 2019 and 2018 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, 2019	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Hedge Funds	$ 10,757	$ 199	Monthly/Annually	45-90 days
Real Estate Funds	$ 17,727	$ 4,909	-	1-5 years
Common/Collective Trusts	$ 18,341	$ -	Monthly	-
Limited Partnerships	$ 28,657	$ 17,108	-	≤10 years

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

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

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

Pension Plan Asset Allocation	2019	2018	Allowable Range
Mid-Large Cap U.S. Equity	9.9%	9.6%	7-23%
Small Cap U.S. Equity	2.5%	3.8%	1-5%
International Equity - Developed	8.2%	16.9%	7-17%
Private Equity/Venture Capital	10.3%	11.7%	2-20%
Private Debt	6.5%		
Hedge Funds	6.7%	4.5%	1-5%
Inflation Hedging	2.6%	6.9%	1-5%
Emerging Markets Equity	3.3%	3.4%	2-8%
Real Estate	10.9%	4.5%	3-11%
Liability Hedging Assets	34.3%	36.9%	25-45%
Cash and Cash Equivalents	4.8%	1.8%	0-5%
Total	**100%**	**100%**	

The trend rate for growth in health care costs, excluding dental, used in the calculation for fiscal year 2019 was 6.09%. This growth rate was assumed to decrease gradually to 4.5% in 2038 and to remain at this level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

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

Expected Future Benefit Payments	Pension Benefits	Medical and Life Insurance		
		Excluding Subsidy	Subsidy Payments	Net of Subsidy
Years ending June 30:				
2020	$ 11,868	$ 581	$ -	$ 581
2021	11,977	609	-	609
2022	12,098	626	-	626
2023	12,221	626	-	626
2024	12,309	635		635
2025-2029	61,220	3,299	-	3,299
Total	**$ 121,693**	**$ 6,376**	**$ -**	**$ 6,376**

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

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

Note 16 Functional Expenses

The Hospital presents its statements of activities 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, 2019 and 2018 are as follows:

Statements of Functional Expenses For year ended June 30, 2019 *(in thousands)*	**Healthcare Services**	**Administrative Support**	**Total**
Operating expenses:			
Compensation	$ 143,110	$ 16,320	$ 159,430
Medical and office supplies	25,874	964	26,838
Repairs and maintenance	749	9,762	10,511
Food service costs	4,274	4	4,278
Insurance and risk management	4,129	1,032	5,161
Professional and administrative services	25,585	14,288	39,873
Utilities and telecommunications	4,506	4,868	9,374
Total operating expenses before interest, depreciation, and amortization	**208,227**	**47,238**	**255,465**
Interest expense	3,758	-	3,758
Depreciation and amortization	7,756	5,086	12,842
Amortization of retirement plan actuarial losses and prior service cost	(644)	(141)	(785)
Interest, depreciation, and amortization	**10,870**	**4,945**	**15,815**
Total operating expenses	**$ 219,097**	**$ 52,183**	**$ 271,280**

Statements of Functional Expenses **For year ended June 30, 2018** *(in thousands)*	**Healthcare Services**	**Administrative Support**	**Total**
Operating expenses:			
Compensation	$ 131,171	$ 12,979	$ 144,150
Medical and office supplies	22,630	354	22,984
Repairs and maintenance	2,666	6,121	8,787
Food service costs	3,314	6	3,320
Insurance and risk management	4,849	1,212	6,061
Professional and administrative services	25,002	11,175	36,177
Utilities and telecommunications	4,655	4,390	9,045
Total operating expenses before interest, depreciation, and amortization	**194,287**	**36,237**	**230,524**
Interest expense	4,118	-	4,118
Depreciation and amortization	5,731	2,520	8,251
Amortization of retirement plan actuarial losses and prior service cost	(1,411)	(310)	(1,721)
Interest, depreciation, and amortization	**8,438**	**2,210**	**10,648**
Total operating expenses	**$ 202,725**	**$ 38,447**	**$ 241,172**

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 1,307 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

Note 18 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).

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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.

As of fiscal years ended June 30, 2019 and 2018, the Statements of Financial Position for the LLC are as follows:

HOWARD DIALYSIS CENTER, LLC STATEMENTS OF FINANCIAL POSITION	**2019**	**2018**
Total Assets	$ 11,481	$ 10,625
Total Liabilities	$ 1,924	$ 924
Equity		
Partner	5,086	5,086
Retained earning	4,471	4,615
Total Equity	**$ 9,557**	**$ 9,701**
ARA interest	$ 4,776	$ 4,948
Hospital interest	$ 4,781	$ 4,753

(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.

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

Certain interdivisional transactions reflected in the Statements of Operations and Changes in Net Assets (Deficit) and in the Statements of Cash Flows for the years ended June 30 are shown in the table below:

Interdivisional Transactions - Operating and Capital	**2019**	**2018**
Operating charges allocated from the Hospital to Howard:		
Medical malpractice	$ 1,223	$ 2,030
Facilities	693	676
Administrative services	-	-
Physicians salaries	(19,100)	(14,454)
Total charges allocated from the Hospital to Howard	**(17,184)**	**(11,748)**
Operating charges allocated to the Hospital from Howard:		
Employee tuition remission	(1,299)	(1,463)
Utilities	(3,547)	(3,547)
Other	(7,950)	(4,193)
Total charges allocated to the Hospital from Howard	**(12,796)**	**(9,203)**
Net charges allocated from the Hospital/(allocated to the Hospital):	**(29,980)**	**(20,951)**
Federal appropriation allocated to the Hospital from Howard	27,325	27,325
Total operating support provided from Howard to the Hospital	**(2,655)**	**6,374**
Financing support provided from Howard to the Hospital:		
Acquisition of equipment under finance leases	-	-
Finance lease payments made by the Hospital	(3,584)	(5,427)
Total financing support provided to the Hospital	**(3,584)**	**(5,427)**
Total support provided to the Hospital	**$ (6,239)**	**$ 947**

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

Interdivisional Balances - Statements of Financial Position	**2019**	**2018**
Current assets	$ -	$ -
Current liabilities	(805)	(805)
Long term liabilities	(40,500)	(25,521)
Total interdivisional balances	**$ (41,305)**	**$ (26,326)**

The accompanying notes are an integral part of these financial statements

For Fiscal Years ended June 30, 2019 and 2018 (amounts in thousands)

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

Interdivisional Transactions - Statements of Financial Position	2019	2018
Short term financing	$ -	$ -
Bond transactions, net	-	-
Long term financing	2,781	2,630
Net charges recovered from Howard/(allocated to the Hospital)	(17,760)	420
Net activity during the year	(14,979)	3,050
Balance at beginning of the year	(26,326)	(29,376)
Balance at end of the year	**$ (41,305)**	**$ (26,326)**

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

Interdivisional Balances - Asset/Liability Allocations	2019	2018
Assets:		
Deposits with trustees	$ 1,430	$ 2,372
Pension assets	157,626	156,007
Total assets	**$ 159,056**	**$ 158,379**
Liabilities:		
Reserves for self-insured liabilities	$ 56,011	$ 58,120
Finance lease obligations	24,351	23,703
Bonds payable, net	27,284	28,056
Total liabilities	**$ 107,646**	**$ 109,879**

(c) Management Services

Howard signed a five-year Management Service Agreement (MSA) with Paladin Healthcare, effective October 1, 2014, with an option to extend the agreement for an additional five years. On that date, Paladin Healthcare assumed responsibility for day-to-day operations of the Hospital under the oversight of a joint Howard and Paladin Healthcare Management Committee, while Howard continued to be the licensed operator of the Hospital. The MSA was terminated as of April 30, 2019.

As of June 8, 2019, Howard 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 extends through June 30, 2020. On or after September 30, 2019, either party can extend or terminate this agreement with ninety days' notice.

In June of 2019, Howard entered into a letter of intent with a third party to enter into a management services agreement to manage the day to day operations of the Hospital with an option to acquire interest in the Hospital.

Note 19 Subsequent Events

The Hospital performed an evaluation of subsequent events through January 31, 2020, 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, 2019.

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. commences 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.