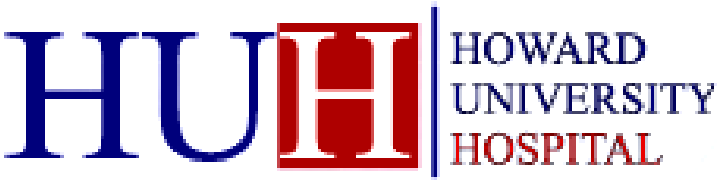

The Howard University Hospital

Financial Statements

As of and for the Six-Month Period Ended June 30, 2024

Table of Contents **Page(s)**

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Howard University Hospital (the "Hospital"), a separate, controlled subsidiary of The Howard University ("Howard"), which comprise the statement of financial position as of June 30, 2024, and the related statement of operations and changes in net assets and cash flows for the six-month period then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital as of June 30, 2024, and the changes in its net assets and its cash flows for the six-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

BDO USA, P.C.

May 7, 2025

Statement of Financial Position *(in thousands)*	**As of June 30, 2024**
Current assets:	
Cash and cash equivalents	$ 25,169
Restricted cash	1,087
Patient receivables, net	33,423
Contract assets	2,730
Inventories and prepaid	9,600
Other receivables	4,977
Total current assets	**$ 76,986**
Non-current assets:	
Deposits with trustees	1,932
Third party & insurance recoveries, net	14,430
Operating right of use assets, net	4,628
Finance right of use assets, net	21,529
Long-lived assets, net	39,634
Overfunded defined benefit pension plan	25,371
Other non-current assets, net	190
Total non-current assets	**$ 107,714**
Total assets	**$ 184,700**
Current liabilities:	
Accounts payable and accrued expenses	$ 41,902
Accrued post-retirement benefits	740
Reserve for self-insured liabilities	14,798
Bonds payable, net	58
Operating lease obligations	1,395
Finance lease obligations	3,874
Due to Howard University	255
Total current liabilities	**$ 63,022**
Non-current liabilities:	
Accrued post-retirement benefits	8,671
Reserve for self-insured liabilities	41,100
Bonds payable, net	28,396
Operating lease obligations	3,233
Finance lease obligations	18,589
Total non-current liabilities	**$ 99,989**
Total liabilities	**$ 163,011**
Net assets (deficit):	
Without donor restrictions	(24,398)
With donor restrictions	1,087
Inter-divisional transfer	45,000
Total net assets	**$ 21,689**
Total liabilities and net assets	**$ 184,700**

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Changes in Net Assets **For The Six-Month Period Ending June 30, 2024** *(in thousands)*	**2024**
Patient service revenue, net	$ 127,676
Federal appropriation	13,663
Other income	5,162
Total operating revenues	**$ 146,501**
Healthcare services	126,912
Administrative support	34,542
Total operating expenses	**$ 161,454**
Total operating losses	**$ (14,953)**
Net periodic benefit cost other than service cost	(3,590)
Change in funded status of defined benefit pension plan	2,123
Change in obligation for post retirement benefit plan	434
Change in net assets (deficit)	**$ (15,986)**
Net assets, beginning of year	37,675
Net assets, end of year	**$ 21,689**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows **For The Six-Month Period Ending June 30, 2024** *(in thousands)*	**2024**
Cash flows from operating activities	
Change in net assets (deficit)	$ (15,986)
Adjustment to reconcile change in net assets to net cash and cash equivalents (used in) operating activities:	
Depreciation and amortization	4,625
Bond discount amortization	11
Bond issuance cost	18
Decrease in pension/post retirement liability	835
Changes in net assets adjusted for non-cash operating items	**$ (10,497)**
Change in receivables	(15,621)
Change in contract assets	676
Change in inventory and prepaid	705
Change in deposits with trustees	(121)
Change in operating right of use assets	440
Change in accounts payable and accrued expenses	4,660
Change in reserve for self-insured liabilities	(762)
Change in operating lease obligations	(440)
Net cash and cash equivalents used in operating activities	**$ (20,960)**
Cash flows from investing activities	
Purchases and renovations of long-lived assets	(2,890)
Net cash and cash equivalents used in investing activities	**$ (2,890)**
Cash flows from financing activities	
Payment on bonds payable	(28)
Principal payments on finance lease obligation	(1,855)
Change in due to (from) Howard University	3,833
Net cash and cash equivalents provided by financing activities	**$ 1,950**
Net decrease in cash and cash equivalents	**(21,900)**
Cash and cash equivalents at beginning of year	47,069
Cash and cash equivalents at end of year	**$ 25,169**
Supplemental cash flow information:	
Net cash paid for interest	$ 2,085
Supplemental non-cash investing information:	
Acquisition of equipment under financing leases, net	$ 1,383

The accompanying notes are an integral part of these financial statements.

Note 1 Summary of Significant Accounting Policies

(a) General

On January 1, 2024, The Howard University established a new legal entity known as The Howard University Hospital. On this date, The Howard University transferred a group of assets comprising of the Howard University's healthcare service activity to the new entity (Howard University Hospital). 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 a separate, controlled subsidiary legal entity 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. The Hospital is an independent legal entity and is operated by and consolidated into The Howard University's financial statements.

(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 does not have any uncertain tax positions as of June 30, 2024.

(c) Basis of Presentation

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

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates also affect the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts realized or paid could differ significantly from the amounts reported for these assets and liabilities. Significant items subject to such estimates and assumptions include determination of variable consideration in revenue transactions in accordance with Accounting Standards Codification (ASC) Section 606, Revenue from Contracts with Customers, the carrying value of patient receivables; property, plant and equipment; the adequacy of reserves for professional liabilities; pension and post-retirement benefits; self-insured health benefits asset retirement obligations; third-party settlements and legal expense accruals.

(e) ***New Accounting Pronouncements***

Periodically, the Financial Accounting Standards Board (FASB) issues Accounting Standards Updates (ASU) which impact the Hospital's financial reporting and related disclosures. The following paragraphs summarize relevant updates to the period presented.

In January 2020, The FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326). For non-public entities, ASU 2016-13 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The ASU requires credit losses on most financial assets carried at amortized cost and certain other instruments to be measured using an expected credit loss model. The Hospital adopted the standard and subsequent clarifications during the year ended June 30, 2024, which did not have a significant impact on our results of operations, financial position, or cash flows.

(f) ***Net Assets***

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

Without Donor Restrictions — Net assets without donor restrictions are available for use at the discretion of the Board of Trustees (the Board) and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management’s discretion. There were no board designated net assets as of June 30, 2024.

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. Net assets with donor restrictions amounted to $1,087 as of June 30, 2024.

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 statement of operations and changes in net assets 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.

(g) Total Operating Losses

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

(h) Receivables and Revenue Recognition

Revenue

The accompanying statement of operations and changes in net assets for the six-month period ended June 30, 2024, is presented in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASC Subtopic 958-605, *Not for Profit Entities – Revenue* (where applicable).

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

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

Disaggregation of Revenue from Contracts with Customers

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

Performance Obligations

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

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

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

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

The Hospital's revenues generally relate to contracts with patients in which our performance obligations are to provide health care services to the patients. Revenues are recorded during the period the obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over periods that average approximately five days, and revenues are recognized based on charges incurred in relation to total expected charges. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationship with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for services provided are dependent upon the terms provided by (Medicare and Medicaid) or negotiated with (managed care health plans and commercial insurance companies) the third-party payors. The payment arrangements with third-party payors for services provided patients typically specify payments at amounts less than the Hospital's standard charges. Medicare generally pays for inpatient and outpatient services at prospectively determined rates based on clinical, diagnostic, and other factors. Services provided to patients having Medicaid coverage are generally paid at prospectively

determined rates per discharge, per identified service or per covered member. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based on predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

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

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

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

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

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

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

Federal appropriation revenue

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 six-month period ended June 30, 2024, the Hospital received $13.7 million, approximately 9.3%, of its revenue support from the Federal appropriation.

Other income

Other Income for the six-month period ended June 30, 2024, was primarily composed of revenue recognized related to interns and residents on rotation income and interest income.

(i) Cash and Cash Equivalents

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

(j) Deposits with Trustees

Deposits with trustees include assets held by trustees under terms of bond indentures and self-insurance trust agreements. The investments are reported at fair value, based on quoted market prices, and at amortized costs. The investments include a variety of financial instruments; the related values presented in the financial statements are subject to various market fluctuations, which include changes in the equity markets, interest rate environment and general economic conditions.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based upon average historical value. Dividend and interest income are recorded on an accrual basis. Accrued but unpaid dividends, interest, and proceeds from investment sales at the report date are recorded as investment receivables. Realized and unrealized investment gains and losses are allocated in a manner consistent with interest and dividends.

(k) Inventories

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

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

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

The Hospital capitalizes and recognizes purchased and donated works of art and historical treasures on the statement of financial position. The Hospital did not have any such activities during the six-month period ended June 30, 2024.

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 the period 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.

Right-of-use assets are initially measured at the present value of the lease payments. Amortization is computed utilizing the straight-line method over the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

(m) Capitalization of Interest Costs

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

(n) Reserves for Self-insured Liabilities

The reserve for self-insured liabilities is comprised primarily of amounts accrued for asserted medical malpractice and workers' compensation claims and includes estimates of the ultimate cost to resolve such claims. The reserve also includes an estimate of the cost to resolve unasserted claims that actuarial analyses indicate are plausible of assertion in the future. Medical malpractice reserves are undiscounted and include an estimate of the cost to resolve unasserted claims that the actuarial analysis indicates are probable of assertion in the future. Workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidences. The estimated workers' compensation liability is reported on an undiscounted basis.

(o) Pension and Post-retirement Benefits

The funded status of the Hospital's pension benefit (the Plan) is actuarially determined and recognized in the statement 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

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

on the statement of financial position as an asset for the six-month period ended June 30, 2024. The Hospital follows the Internal Revenue Service (IRS) guidelines in the administration of the Plan.

(p) ***Compensated Absences***

The Hospital records a liability for amounts due to employees for future absences, which are attributable to services performed in the current and prior periods and subject to maximum carryover. This obligation is recognized on the statement of financial position as part of accounts payable and accrued expenses.

Note 2 Liquidity and Availability of Resources

As of June 30, 2024, financial assets and liquidity resources that are available within one year for general expenditures consists of the following:

Financial Assets and Liquidity Resource	June 30, 2024
Financial Assets:	
Cash and cash equivalents	$ 25,169
Patient receivables, net	33,423
Contract assets	2,730
Other receivables	4,977
Total financial assets and liquidity resources available within one year	**$ 66,299**

None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. In addition, Howard has committed to funding the Hospital as required to meet obligations and continue to operate through May 31, 2026.

Note 3 Charity Care

The Hospital provides services to patients who meet the criteria of its charity care policy without charge, or at amounts less than established rates. The criteria for charity services are comprised of family income, net worth, and eligibility at time of application. In addition, the Hospital provides services to patients under the District of Columbia Healthcare Alliance program ("DC Alliance program") that serves low-income District Residents who have no insurance and are not eligible for Medicaid. The total costs foregone for services furnished under the Hospital's charity care policy and the DC Alliance program were $1,751 for the six-month period ended June 30, 2024.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

Note 4 Insurance and Risk Management

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

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

Note 5 Concentration of Credit Risk

Financial instruments that potentially subject the Hospital to significant concentrations of credit risk consist principally of cash, cash equivalents, and investments in financial institutions in excess of the applicable government insurance limits. The Hospital had cash balances on deposit with one bank that that exceeded the balance insured by the FDIC in the amount of $25,951 as of June 30, 2024.

Concentrations of credit risk with respect to receivables pertain mainly to the Hospital's self-pay patients. Payor mix was as follows on:

Payor Mix	June 30, 2024
Medicare	5%
Medicaid	36%
Blue Cross	6%
Other third-party payors	25%
Patients	28%
	100%

For The Six-Month Period Ended June 30, 2024 (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 statement of financial position. The following is a summary of the balances at June 30:

Inhouse Receivables - Contract Assets	June 30, 2024
Inhouse charges	$ 9,042
Price concessions	(6,312)
Net contract assets	**$ 2,730**

Note 7 Accounts Payable and Accrued Expenses

Components of this liability account are as follows:

Accounts Payable and Accrued Expenses	June 30, 2024
Vendor invoices	$ 31,907
Accrued salaries and wages	6,299
Accrued employee benefits	512
Accrued annual leave	2,978
Accrued interest	206
Total	**$ 41,902**

Note 8 Deposits with Trustees and Self-insured Liabilities

Components of self-insured liabilities were as follows:

	Dedicated Assets	Estimated Liability
	June 30, 2024	June 30, 2024
Debt service reserve fund	$ 1,585	N/A
Professional and general	-	$ 51,672
Workers' compensation	-	3,238
Health Insurance	347	988
Total	**$ 1,932**	**$ 55,898**

N/A = Not applicable

(a) Debt Service Reserve Fund

As required by the 2011 Revenue Bonds, Howard maintains a debt service reserve fund with assets totaling $14,281, which is greater than the debt service fund requirements. The portion of this fund allocated to the Hospital in the six-month period ended June 30, 2024, is $1,585. The assets in the debt service reserve fund consist primarily of cash, fixed income, and other short-term securities.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

(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, 2024. It is the opinion of management based on the advice of actuaries and legal counsel that the estimated malpractice costs accrued at June 30, 2024 of approximately $51,672 are adequate to provide for losses resulting from probable unasserted claims and pending or threatened litigation. There is no discount reflected at June 30, 2024.

Professional liability activity was summarized as follows for the six-month period ending June 30 in the table below:

Professional Liability	**June 30, 2024**
Beginning Balance	$ 52,358
Malpractice claims expense	2,860
Settlement payments	(3,546)
Ending Balance	**$ 51,672**

(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, 2024, workers' compensation liabilities are being satisfied as claims arise. For the six-month period ended June 30, 2024, the Hospital maintained $5,221 in letters of credit 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 the six-month period ended June 30, 2024, income related to workers' compensation was $860 and is reflected in operating expenses.

The total liability for future workers' compensation liability claims was approximately $3,238 at June 30, 2024 and includes liabilities for claims covered under existing insurance policies. Workers' compensation liability claims is reported in reserve for self-insured liabilities on the statement of financial position. Reserves reflect actuarially determined estimates for losses on asserted claims, as well as unasserted claims arising from reported and unreported incidents. This liability is recorded on the accompanying statement of financial position in reserves for self-insured liabilities.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

(d) ***Health Insurance***

The Hospital established a revocable self-insured trust fund for the purpose of funding group health benefits for its employees. The assets, held by the Hospital, consist primarily of investments in money market funds. Deposits to the fund are amounts withheld from employees' salaries and wages and the Hospital's contributions based on estimates established by the claim's administrator. Disbursements from the fund are made in accordance with the payment plan established with the claim's administrator. The total estimated liability for asserted and unasserted probable Hospital claims at June 30, 2024 is approximately $988.

Note 9 Fair Value Measurements

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

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

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

Fair Value as of June 30, 2024	Level 1	Level 2	Total
Assets:			
Cash and Cash equivalents (1)	$ 25,169	$ -	$ 25,169
Deposits with Trustees (2)			
Cash and Cash equivalent (1)	347	-	347
Money Market Fund (1)	-	1,585	1,585
Total Asset (non-investment)	**$ 25,516**	**$ 1,585**	**$ 27,101**

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

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

(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 statement of financial position for estimated third-party payor receivable settlements approximate fair value.

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

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

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

	June 30, 2024	
	Carrying Amounts	**Fair Value**
Assets:		
Cash and Cash Equivalents	$ 25,169	$ 25,169
Deposits with Trustees	1,932	1,932
Third-Party and Insurance Recoveries	14,430	14,430
Liabilities:		
Bonds Payable	$ 28,454	$ 27,947

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. The Hospital receives 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, the Hospital receives a PPS based reimbursement for outpatient and other (Medicare Part B) services provided to its Medicare eligible patients. The Hospital receives disproportionate share hospital (DSH), medical education and capital payments on a per discharge basis. For the six-month period ended June 30, 2024, the Hospital received Medicare revenues attributable to DSH of $8,233.

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 six-month period ended June 30, 2024, the Hospital received Medicaid revenues attributable to DSH of $16,675.

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

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily or procedure rates.

Gross revenues from each major third-party payor for the six-month period ended June 30, 2024 are shown below, including contractual allowances, charity care and bad debt.

Gross Revenues	June 30. 2024
Medicare	$ 127,406
Medicaid	163,168
Blue Cross and others	64,770
Gross Revenues	**$ 355,344**
Third-party payor settlement revenue (*Note 11*)	35,506
Price concessions	(263,174)
Total Net Patient Service Revenue	**$ 127,676**

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

Gross Revenues	June 30, 2024
Inpatient services	$ 195,251
Outpatient services	97,262
Emergency care services	62,831
Total Gross Revenues	**$ 355,344**

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

The Medicare program provides additional reimbursement to approved teaching hospitals for additional expenses incurred by such institutions. This additional reimbursement, which is subject to certain limits, including intern and resident full-time equivalent ("FTE") limits, is made in the form of GME and IME payments. GME and IME payments for the six-month period ended June 30, 2024, were $9,799.

Medicaid Managed Care Graduate Medical Education (HMO GME)

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

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

30, 2024, the estimated receivable was $4,724.

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 2021-2022
Medicare 2022-2023
Medicare 2023-2024

Final settlements and changes in estimates related to Medicare and Medicaid third-party cost reports for prior years resulted in an increase in net patient service revenues of approximately $2,100 the six-month period ended June 30, 2024.

Third-party settlement revenue	June 30, 2024
Medicare pass-through	$ 8,233
Disproportionate Share Hospital	16,675
Graduate Medical Education	9,799
Other	799
Total third-party settlement revenue	**$ 35,506**

Note 12 Long-Lived Assets, net

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

Property, Plant and Equipment, net	June 30, 2024
Land and land improvements	$ 5,418
Buildings and building improvements	163,883
Furniture and equipment	160,305
Software and computer hardware	44,379
Long-lived assets, gross	373,985
Accumulated depreciation	(334,351)
Long-lived assets, net	**$ 39,634**

Depreciation expense for the six-month period ended June 30, 2024, is $2,920.

Note 13 Leases

Lease Obligations

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

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

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

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

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

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

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

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

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

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

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

Finance Leases

The Hospital was obligated under finance leases for office and medical equipment that extend through fiscal year 2028, and the chiller plant that extends through fiscal year 2032, in the amount of $22,463 during six-month period ended June 30, 2024. 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.

The finance lease right-of-use assets and accumulated amortization for the period ending June 30 is as follows:

Right of Use Assets – Finance Lease	**June 30, 2024**
Right of use assets – Financing	$ 35,481
Accumulated amortization	(13,952)
Right of use assets, net	**$ 21,529**

Amortization expense for the six-month period ended June 30, 2024, was $1,705. The discount rates used in measuring the finance right-of-use assets and liabilities were either the rates implicit in the lease if readily determinable (if applicable) or the Hospital's incremental borrowing rate near the date of lease commencement.

At June 30, 2024, 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**
2025	$ 5,242
2026	4,759
2027	4,539
2028	3,990
2029	2,768
2030 and thereafter	6,798
Obligation, gross	**28,096**
Amounts representing interest rates from 2% to 8%	(5,633)
Total Lease Obligations, net	**$ 22,463**

At June 30, 2024, 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 were as follows:

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

Lease Obligations - Interest	Financing Leases
2025	$ 1,368
2026	1,170
2027	968
2028	765
2029	582
2030 and thereafter	780
Total Lease Obligations - Interest	**$ 5,633**

Operating Leases

The Hospital has several non-cancelable operating leases for medical equipment that extend through 2029.

Rent expense is recognized on a straight-line basis over the term of the lease. The operating lease right-of-use assets and accumulated amortization for the six-month period ending June 30 is as follows:

Right of Use Assets – Operating Lease	June 30, 2024
Right of use assets – Operating	$ 6,845
Accumulated amortization	(2,217)
Right of use assets, net	**$ 4,628**

At June 30, 2024, the future minimum lease payments under operating leases (with initial or remaining lease terms in excess of one year) were as follows:

Lease Obligations	Operating Leases
2025	$ 1,558
2026	1,374
2027	1,065
2028	847
2029	150
Obligation, gross	**4,994**
Amounts representing interest rates from 2% to 8%	(366)
Total Lease Obligations, net	**$ 4,628**

The remainder of this page intentionally left blank.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

At June 30, 2024, the minimum future lease scheduled interest payments under operating leases (with initial or remaining lease terms in excess of one year) for future years ending were as follows:

Lease Obligations - Interest	Operating Leases
2025	$ 163
2026	111
2027	66
2028	24
2029	2
Total Lease Obligations - Interest	**$ 366**

Certain supplemental quantitative information as required under ASC 842 was as follows for the six-month period ending June 30:

Lease Expense	June 30, 2024
Finance lease expense:	
Amortization of right to use assets	$ 1,705
Interest on lease liabilities	751
Operating lease expense	766
Total Lease Expense	**$ 3,222**

Other Information	June 30, 2024
Cash paid for amounts included in the measurements of lease liabilities for finance leases:	
Financing cash flows	$ 1,855
Right of use (ROU) assets obtained in exchange for lease liabilities:	
Operating leases	$ 218
Finance leases	$ 1,383
Weighted-average remaining lease term (in years):	
Operating leases	3.58
Finance leases	6.22
Weighted-average discount rate:	
Operating leases	4.06%
Finance leases	6.53%

Lease Income

Lessor Operating Leases

The Hospital has assessed all contracts that convey control of its assets to third parties as lessor leases. Lessors recognize an unbilled lease receivable for their operating leases. Such treatment results in the recognition of lease income on a straight-line basis, while the underlying leased asset remains on the lessor's statement of financial position and is continuously depreciated.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

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

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

The Hospital receives rental income under both fixed and month-to-month lease agreements. The total lease income received for the six-month period ended June 30, 2024, was $669 and was reported within other income on the statement of operations and changes in net assets.
The future minimum lease income on fixed leases for the period ending June 30 was as follows:

Future Minimum Lease Income	June 30, 2024
2025	$ 78
2026	78
2027	78
2028	78
2029 and thereafter	33
Total Minimum Lease Income	**$ 345**

Note 14 Bonds Payable

(a) Bonds Payable

The Hospital is obligated with the bond issues below at the report date. These bonds were issued by Howard, a portion of which was allocated to the Hospital.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

The carrying amounts of the Hospital financial bond obligations, are as follows:

Bonds Payable	June 30, 2024
District of Columbia issues:	
2010 Revenue bonds, 5.05% Serial due through 2025	$ 88
2011A Revenue bonds 5.00% to 6.50% Serial due 2020 through 2041	
2011B Revenue bonds, 4.31% to 7.63% Serial due through 2036	13,680
2020B Taxable bonds, 1.99% to 3.48% Serial due 2021 through 2042	15,414
Total bonds payable, gross	**$ 29,182**
Bond premiums (discounts)	(258)
Bond issuance costs	(470)
Current portion bonds payable	(58)
Total long-term bonds payable, net	**$ 28,396**

(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. The proceeds were used to retire an expiring equipment note and to fund energy related projects.

(2) *2011B Taxable Bonds*

In April 2011, Howard issued $65,065 of Series 2011B bonds to refund the Series 1998 and Series 2006 bonds and to finance new capital improvements. The Series 2011B bonds bear interest between 4.31% and 7.63% and are repayable from 2015 to 2035. The average coupon rate is 6.57%. The 2011 bonds require Howard to maintain a debt service fund of $12,634. As of June 30, 2024, the fund balance was $14,281.

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) *Series 2020B Taxable Bonds*

In July 2020, Howard issued $209,085 of Series 2020B bonds to refund the series 2011A bonds and to purchase securities which, along with cash, or deposited with an escrow agent to provide all future debt service payments owed to holders of the series 2011A bonds through 2041. The series 2020B bonds bear interest between 1.99% to 3.48% and are repayable between 2025 and 2041.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

(4) *Fair Value of Bonds Payable*

The estimated fair value of the Hospital's bond allocation is determined based on quoted market prices. At June 30, 2024, the estimated fair value was approximately $27,947. Fair value estimates are made at a specific point in time, are subjective in nature, and involve uncertainties and matters of judgment. Howard is not required to settle its debt obligations at fair value and settlement is not possible in most cases because of the terms under which the debt was issued and legal limitations on refunding tax-exempt debt.

(5) *Compliance with Contractual Covenants*

The Series 2011B and Series 2020B contain restrictive financial covenants as summarized in the table below.

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

As of June 30, 2024, Howard was in compliance with the Debt Service Coverage Ratio measurements for the 2011B and 2020B Revenue Bonds.

(6) *Scheduled Bond Repayments*

The scheduled principal repayments of bonds payable are as follows:

Aggregate Annual Maturities	2024
2025	$ 58
2026	849
2027	837
2028	857
2029	878
2030 and thereafter	25,703
Bonds Payable, gross	**29,182**
Bond premiums (discounts)	(258)
Bond issuance costs	(470)
Total bonds payable, net	**$ 28,454**

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 statement of operations and changes in net assets were $3,170 for the six-month period ended June 30, 2024.

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 The Six-Month Period Ended June 30, 2024 (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
	June 30, 2024	June 30, 2024
Change in benefit obligations:		
Projected benefit obligation at beginning of year	**$ 154,977**	**$ 9,750**
Service cost	-	44
Interest cost	3,736	263
Actuarial (gain) loss	(4,672)	(404)
Benefits paid	(5,635)	(256)
Medicare Part D subsidy	-	-
Employee contributions	-	14
Plan curtailments	-	-
Plan amendments	-	-
Projected benefit obligation at end of year	**148,406**	**9,411**
Change in plan assets:		
Fair value of plan assets at beginning of year	181,522	**-**
Actual return on plan assets	(2,110)	-
Employer contributions	-	242
Employee contributions	-	14
Medicare Part D subsidy	-	-
Benefits paid	(5,635)	(256)
Fair value of plan assets at end of year	**173,777**	**-**
Net surplus (obligation)	**$ 25,371**	**$ (9,411)**

The remainder of this page intentionally left blank.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

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

Retirement Benefits	Pension	Medical and Life Insurance
	June 30, 2024	June 30, 2024
Recognition in Statement of Operations and Net Assets (Deficit):		
Service cost	$ -	$ 44
Recognized in operating expenses	**$ -**	$ 44
Interest cost	3,736	264
Expected return on plan assets	(1,427)	-
Amortization of prior service cost	100	-
Amortization of actuarial loss	888	30
Net periodic benefit cost	**$ 3,297**	**$ 338**
Net actuarial (gain) during the year	(1,135)	(404)
Amortization of prior service cost	(100)	-
Amortization of actuarial loss	(888)	(30)
Total recognized in other changes in unrestricted net assets (deficit)	**$ (2,123)**	**$ (434)**
Total recognized in Statement of Operations and Changes in Net Assets (Deficit)	**$ 1,174**	**$ (96)**

Amounts not yet recognized in operating expenses, but included in unrestricted net assets at June 30, 2024:

Retirement Benefits	Pension	Medical and Life Insurance
	June 30, 2024	June 30, 2024
Net actuarial loss	$ (49,610)	$ (1,156)
Prior service cost	(1,701)	-
Total	**$ (51,311)**	$ (1,156)

The estimated net actuarial loss, prior service cost/(credit), and transition obligation for the pension and post-retirement plans that are projected to be accounted for as a part of net periodic benefit cost over the next fiscal year are $1,000, $100, and $0, respectively.

No contributions to the pension plan were made in the six-month period ended June 30, 2024, and no contributions are expected to be paid to the pension plan during the Fiscal Year ended June 30, 2024.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

The weighted average assumptions used to determine the benefit obligation in the actuarial valuations for the six-month period ended as follows:

Actuarial Assumptions	Pension Benefits	Medical and Life Insurance
	June 30, 2024	June 30, 2024
Discount rate	5.37%	5.72%
Expected return on plan assets	6.50%	-
Rate of compensation increase	-	3.50%

The weighted average assumptions used to determine net periodic cost in the actuarial valuations for the six-month period ending as follows:

Actuarial Assumptions	Pension Benefits	Medical and Life Insurance
	June 30, 2024	June 30, 2024
Discount rate	5.10%	5.65%
Expected return on plan assets	6.50%	-
Rate of compensation increase		
To age 35	-	3.50%
Thereafter	-	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.

The remainder of this page intentionally left blank.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

The Hospital's plan assets were approximately 30% of total plan assets in the six-month period ended June 30, 2024. Pension plan investments allocated to the Hospital were as follows:

PENSION PLAN INVESTMENTS AS OF JUNE 30, 2024	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pension Plan Investments				
Assets:				
Money Market Instrument (4)	$ -	$ 2,060	$ -	$ 2,060
U.S. Government Securities (3)	21,750	-	-	21,750
Fixed Income	1,691	-	-	1,691
Common Stock (1)	8,524	-	-	8,524
Mortgage-Backed Securities (2)	-	3,930	-	3,930
Corporate Bond (2)	7,543	45,871	-	53,414
Obligations of Foreign Governments (3)	-	1,244	-	1,244
Mutual Fund				
Domestic Fixed Income (2)	35,227	-	-	35,227
Total assets	**$ 74,735**	**$ 53,105**	**-**	**$ 127,840**
Liabilities:				
Financial Derivatives – Option Contracts	-	560	-	560
Total liabilities	**$ -**	**$ 560**	**-**	**$ 560**
Operating asset not subjected to fair value reporting	21,856	-	-	21,856
Operating liabilities not subjected to fair value reporting	(29,533)	-	-	(29,533)
Total pension plan investments	**$ 67,058**	**$ 53,665**	**$ -**	**$ 120,723**
Total investments measured at the NAV as a practical expedient				$ 53,054
Total plan assets				**$ 173,777**

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used as of June 30, 2024.

1) **Common Stock:** Valued at the closing price as reported on the New York Stock Exchange.

2) **Corporate Bonds, Mortgage-Backed Securities and Private Debt Investments:** Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.

3) **U.S. Government Securities and Obligations of Foreign Governments:** Valued using pricing models maximizing the use of observable inputs for similar securities.

4) **Money Market, Mutual Funds, and Other Registered Investments**: Represent investments with various investment managers. The mutual funds are valued at the daily closing net asset value as reported by the fund. Mutual funds held by the Plan are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded. Money market investments are short-term investments in money market mutual funds which invest in highly liquid government or corporate debt instruments. The Plan invests in another registered investment called the PIMCO Long Duration Credit Bond Portfolio, which seeks to maximize return by investing in corporate fixed income instruments, options, futures, and swap agreements. They are comprised of units held within a portfolio of an open-end management investment company and are valued at the NAV. The portfolios are registered with the SEC, but are not publicly traded. The NAV is used as a practical expedient to estimate fair value and is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

5) **Alternative Investments:** Alternative investments include the Plan's limited partnership interests in private equity, real estate funds and hedge funds. These investments are reported at the NAV, as provided by the fund managers. The NAV is used as a practical expedient to measure fair value but is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. The fund managers use pricing models, appraisals, discounted cash flow models, and other valuation techniques to determine fair value of the underlying investments in each fund. The Plan also invests in another registered investment called the PIMCO Long Duration Credit Bond Portfolio, which seeks to maximize return by investing in corporate fixed income instruments, options, futures, and swap agreements. They are comprised of units held within a portfolio of an open-end management investment company and are valued at the NAV. The portfolios are registered with the SEC, but are not publicly traded. The NAV is used as a practical expedient to estimate fair value and is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

6) **Common/Collective Trusts:** Units held within common/collective trusts ("CCTs") are valued at the NAV. The NAV is used as a practical expedient to estimate fair value and is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

Plan investments measured at the NAV as a practical expedient are summarized for the period as follows:

Investments as of June 30, 2024	Fair Value	Unfunded Commitments	Redemption/ Withdrawal Frequency	Redemption / Withdrawal Notice Period
Common Stock	$ 1,864	$ -	Monthly	0
Real Estate Funds (b)	6,319	684	-	1-5 years
Common/Collective Trusts (c)	9,672	-	Monthly	-
Limited Partnerships (d)	35,199	7,323	-	≤10 years
Total investments measured at the NAV as a practical expedient	$ 53,054	$ 8,007		

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

The actual allocation of the plan for the six-month period ending June 30 is as follows:

Pension Plan Asset Allocation	June 30, 2024
Mid-Large Cap U.S. Equity	8%
International Equity - Developed	2%
Private Equity/Venture Capital	9%
Private Debt	7%
Hedge Funds	1%
Inflation Hedging	4%
Real Estate	7%
Liability Hedging Assets	58%
Cash and Cash Equivalents	4%
Total	100%

The trend rate for growth in health care costs, excluding dental, used in the calculation for the six-month period ended June 30, 2024 was 5.31%. This growth rate was assumed to decrease gradually to 4.0% in 2046 and to remain at this level thereafter. The health care cost trend rate assumption has a significant effect on the obligations reported for the health care plans.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

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
Periods ending:				
2024	$ 11,915	$ 740	$ -	$ 740
2025	11,818	760	-	760
2026	11,730	775	-	775
2027	11,526	789	-	789
2028	11,284	788	-	788
2029-2033	51,593	3,814	-	3,814
Total	**$ 109,866**	**$ 7,666**	**$ -**	**$ 7,666**

The mortality retirement rates base table used Pri-2012 Mortality Table without collar adjustment projected using the MP-2021 Mortality Improvement Scale. If eligible, participants were assumed to retire according to the following schedule:

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

Note 16 Functional Expenses

The Hospital presents its statement of operations and changes in net assets 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 remainder of this page intentionally left blank.

The statement of functional expenses for the six-month period ending June 30, 2024, is as follows:

Statement of Functional Expenses **For the period ending June 30, 2024** *(in thousands)*	**Healthcare Services**	**Administrative Support**	**Total**
Operating expenses:			
Compensation	$ 80,697	$ 15,280	$ 95,977
Medical and office supplies	13,516	2,229	15,745
Repairs and maintenance	44	1,839	1,883
Food service costs	2,097	38	2,135
Insurance and risk management	2,919	730	3,649
Professional and administrative services	21,052	11,420	32,472
Utilities and telecommunications	1,985	1,346	3,331
Total operating expenses before interest, depreciation, and amortization	**122,310**	**32,882**	**155,192**
Interest expense	1,619	-	1,619
Depreciation and amortization	2,983	1,660	4,643
Interest, depreciation, and amortization	**4,602**	**1,660**	**6,262**
Total operating expenses	**$ 126,912**	**$ 34,542**	**$ 161,454**

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 1,386 employees. Certain of these agreements are in negotiations and have been extended beyond the stated expiration date.

(c) Management Services

Howard University signed a three-year Management Service Agreement (MSA) with Adventist Healthcare, Inc. effective January 31, 2020. Adventist Healthcare, Inc. commenced full performance effective February 17, 2020, under the MSA for day-to-day operations of the Hospital under the oversight of a joint Howard and

Adventist Healthcare, Inc. Management Committee, while Howard continues to be the licensed operator of the Hospital.

The term of the original agreement is for three years, unless terminated sooner as provided under the MSA. The MSA included an allowance for 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. The first additional one (1) year renewal and extension term became effective as of January 31, 2023, and continues to be renewed as of the date of this report, per the terms of the original MSA.

Note 18 Related Party Transactions

(a) 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.

In fiscal year 2021 and prior, the Hospital received staffing from Howard University for the clinical specialty of Anesthesia. Effective July 1, 2021, Howard University signed a three-year Professional Services Agreement (PSA) with U.S. Anesthesia Partners of DC to provide Physician professional services for licensed providers in the clinical specialty of Anesthesia for Howard University Hospital. This agreement, which has since been amended, remains in effect as of the date of this report.

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

Certain interdivisional transactions reflected in the statement of operations and changes in net assets and in the statement of cash flows for the six-month period ending June 30 is shown in the table below:

Interdivisional Transactions - Operating and Capital	June 30, 2024
Operating charges allocated from the Hospital to Howard:	
Medical malpractice	$ 937
Facilities	426
Other	894
Total charges allocated from the Hospital to Howard	**2,257**
Operating charges allocated to the Hospital from Howard:	
Physicians' salaries	(10,552)
Employee tuition remission	(902)
Utilities	(1,855)
Other	(2,094)
Total charges allocated to the Hospital from Howard	**(15,403)**
Net charges allocated from the Hospital/ (allocated to the Hospital):	**(13,146)**
Federal appropriation allocated to the Hospital from Howard	13,663
Total operating support provided from Howard to the Hospital	**517**
Financing support provided from Howard to the Hospital:	
Pension plan contributions made by the University	(242)
Finance lease payments made by the Hospital	(1,855)
Total financing support provided to the Hospital	**(2,097)**
Total support provided to the Hospital	**$ (1,580)**

Interdivisional balances on the Statement of Financial Position were as follows:

Interdivisional Balances - Statement of Financial Position	June 30. 2024
Current assets	$ (255)
Current liabilities	-
Long term liabilities	-
Total interdivisional balances	**$ (255)**

For The Six-Month Period Ended June 30, 2024 (amounts in thousands)

Changes in interdivisional balances for the period ending were as follows:

Interdivisional Transactions - Statement of Financial Position	June 30, 2024
Short term financing	$ -
Bond transactions, net	787
Long term financing	-
Pension contributions	242
Net charges recovered from Howard/ (allocated to the Hospital)	(4,863)
Net activity during the year	(3,834)
Balance at beginning of the year	3,579
Balance at end of the year	**$ (255)**

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

Interdivisional Balances - Asset/Liability Allocations	June 30, 2024
Assets:	
Deposits with trustees	$ 1,932
Pension assets	173,777
Total assets	**175,709**
Liabilities:	
Reserves for self-insured liabilities	55,898
Finance lease obligations	22,463
Bonds payable, net	28,454
Total liabilities	**$ 106,815**

Note 19 Subsequent Events

The Hospital evaluated subsequent events through May 7, 2025 which is the date the financial statements were issued. The Hospital concluded that no material events have occurred that are not accounted for in the accompanying financial statements or disclosed in the accompanying notes.