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# THE JOHNS HOPKINS UNIVERSITY

Consolidated Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

**KPMG LLP**
1 East Pratt Street
Baltimore, MD 21202-1128

# Independent Auditors' Report

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying consolidated financial statements of The Johns Hopkins University (the University), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## *Management's Responsibility for the Financial Statements*

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

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 auditors' 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 consolidated financial statements referred to above present fairly in all material respects, the financial position of The Johns Hopkins University as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 18, 2013

**THE JOHNS HOPKINS UNIVERSITY**

Consolidated Balance Sheets

June 30, 2013 and 2012

(In thousands)

| **Assets** | | **2013** | **2012** |
|---|---|---|---|
| Cash and cash equivalents | $ | 235,877 | 182,234 |
| Operating investments | | 825,581 | 820,488 |
| Cash, cash equivalents and operating investments | | 1,061,458 | 1,002,722 |
| Sponsored research accounts receivable, net | | 321,912 | 323,176 |
| Other accounts receivable, net | | 143,675 | 198,737 |
| Contributions receivable, net | | 202,170 | 246,484 |
| Prepaid expenses and deferred charges | | 47,086 | 39,233 |
| Student loans receivable, net | | 33,265 | 33,109 |
| Investments | | 3,874,737 | 3,492,777 |
| Property and equipment, net | | 2,116,037 | 2,103,275 |
| Investments in and loans to affiliates | | 194,560 | 169,363 |
| Other assets | | 111,970 | 103,178 |
| Interests in trusts and endowment funds held by others | | 105,501 | 103,231 |
| Total assets | $ | 8,212,371 | 7,815,285 |
| **Liabilities and Net Assets** | | | |
| Accounts payable and accrued expenses | $ | 487,033 | 503,999 |
| Sponsored research deferred revenues | | 279,586 | 258,058 |
| Other deferred revenues and liabilities | | 136,422 | 160,488 |
| Liabilities under split-interest agreements | | 68,089 | 70,500 |
| Debt | | 1,437,944 | 1,432,048 |
| Pension and postretirement obligations | | 162,955 | 326,247 |
| Other long-term liabilities | | 241,909 | 230,542 |
| Endowment and similar funds held for others | | 519,624 | 480,629 |
| Total liabilities | | 3,333,562 | 3,462,511 |
| Net assets: | | | |
| Unrestricted | | 2,242,101 | 1,899,596 |
| Temporarily restricted | | 1,075,232 | 998,155 |
| Permanently restricted | | 1,561,476 | 1,455,023 |
| Total net assets | | 4,878,809 | 4,352,774 |
| Total liabilities and net assets | $ | 8,212,371 | 7,815,285 |

See accompanying notes to consolidated financial statements.

**THE JOHNS HOPKINS UNIVERSITY**

Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

(In thousands)

| | | 2013 | 2012 |
|---|---|---|---|
| Changes in unrestricted net assets from operating activities: | | | |
| Operating revenues: | | | |
| Tuition and fees | $ | 734,928 | 706,209 |
| Less financial aid | | 257,875 | 249,829 |
| Tuition and fees, net of financial aid | | 477,053 | 456,380 |
| Grants, contracts, and similar agreements | | 2,743,110 | 2,629,364 |
| Clinical services | | 543,125 | 493,840 |
| Reimbursements from affiliated institutions | | 434,317 | 405,208 |
| Contributions | | 110,517 | 92,557 |
| Endowment payout used to support operations | | 129,284 | 124,194 |
| Investment return | | 16,631 | 26,538 |
| Maryland State aid | | 16,317 | 16,690 |
| Auxiliary enterprises | | 94,093 | 91,709 |
| Other revenues | | 140,856 | 136,154 |
| Net assets released from restrictions | | 88,481 | 88,009 |
| Total operating revenues | | 4,793,784 | 4,560,643 |
| Operating expenses: | | | |
| Compensation | | 2,083,978 | 1,986,804 |
| Benefits | | 666,439 | 623,652 |
| Contractual services | | 1,045,332 | 959,893 |
| Supplies, materials, and other | | 538,493 | 518,526 |
| Depreciation and amortization | | 194,469 | 188,920 |
| Travel | | 116,231 | 112,277 |
| Interest | | 53,639 | 55,574 |
| Total operating expenses | | 4,698,581 | 4,445,646 |
| Excess of operating revenues over operating expenses | | 95,203 | 114,997 |



(Continued)

**THE JOHNS HOPKINS UNIVERSITY**

Consolidated Statements of Activities

Years ended June 30, 2013 and 2012

(In thousands)

| | 2013 | 2012 |
|---|---|---|
| Changes in unrestricted net assets from nonoperating activities: | | |
| Investment return | $ 80,415 | (36,838) |
| Change in benefit plans funded status, excluding benefit costs | 161,670 | (170,575) |
| Net assets released from restrictions | 29,874 | 8,353 |
| Loss on bond refinancings | (45,982) | (3,532) |
| Change in fair value on interest rate swap agreements | 14,338 | (18,556) |
| Other, net | 6,987 | 8,261 |
| Change in unrestricted net assets from nonoperating activities | 247,302 | (212,887) |
| Total changes in unrestricted net assets | 342,505 | (97,890) |
| Changes in temporarily restricted net assets: | | |
| Contributions | 77,480 | 92,857 |
| Investment return | 117,952 | (49,475) |
| Net assets released from restrictions | (118,355) | (96,362) |
| Total changes in temporarily restricted net assets | 77,077 | (52,980) |
| Changes in permanently restricted net assets: | | |
| Contributions | 87,685 | 40,218 |
| Investment return | 18,768 | 633 |
| Total changes in permanently restricted net assets | 106,453 | 40,851 |
| Total changes in net assets | 526,035 | (110,019) |
| Net assets at beginning of year | 4,352,774 | 4,462,793 |
| Net assets at end of year | $ 4,878,809 | 4,352,774 |

See accompanying notes to consolidated financial statements.

## THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

| | | 2013 | 2012 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Changes in net assets | $ | 526,035 | (110,019) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | | |
| Depreciation, amortization, and loss on asset disposals | | 193,720 | 189,965 |
| Contributions restricted for long-term investment | | (92,720) | (33,287) |
| Net realized and unrealized gains from investments | | (328,999) | (34,526) |
| Net unrealized (gains) losses from swaps | | (14,338) | 18,556 |
| Loss on bond refinancings | | 45,982 | 3,532 |
| Change in benefit plans funded status | | (163,292) | 164,033 |
| Changes in assets and liabilities: | | | |
| Sponsored research and other accounts receivable, net | | 56,326 | 1,756 |
| Contributions receivable, net | | 8,297 | 5,175 |
| Prepaid expenses and deferred charges | | (9,672) | (2,052) |
| Investments in and loans to affiliates | | (18,030) | (25,458) |
| Other assets | | (8,792) | (73,550) |
| Accounts payable and accrued expenses | | (16,013) | 47,588 |
| Sponsored research and other deferred revenues and liabilities | | 11,800 | (5,950) |
| Interests and liabilities related to trusts and split-interest agreements | | 11,596 | 5,019 |
| Other long-term liabilities | | 2,736 | 54,332 |
| Net cash provided by operating activities | | 204,636 | 205,114 |
| Cash flows from investing activities: | | | |
| Purchases of operating investments and investments | | (2,453,248) | (2,759,556) |
| Proceeds from sales and maturities of operating investments and investments | | 2,463,127 | 2,794,000 |
| Purchases of property and equipment | | (196,554) | (228,903) |
| Disbursements for student loans | | (5,415) | (5,315) |
| Repayments of student loans | | 5,259 | 5,466 |
| Advances to affiliates, net of repayments | | (22,465) | (28,024) |
| Joint venture dividends, net of capital contributions | | 5,225 | 10,538 |
| Change in endowments held for others | | (16,929) | (12,102) |
| Net cash used in investing activities | | (221,000) | (223,896) |
| Cash flows from financing activities: | | | |
| Contributions restricted for long-term investment | | 106,066 | 77,040 |
| Proceeds from borrowings | | 463,079 | 184,768 |
| Payments on debt refinancings | | (458,075) | (183,325) |
| Scheduled debt payments | | (41,063) | (26,218) |
| Net cash provided by financing activities | | 70,007 | 52,265 |
| Net increase in cash and cash equivalents | | 53,643 | 33,483 |
| Cash and cash equivalents at beginning of year | | 182,234 | 148,751 |
| Cash and cash equivalents at end of year | $ | 235,877 | 182,234 |

See accompanying notes to consolidated financial statements.

## (1) Basis of Presentation and Summary of Significant Accounting Policies

### *(a) General*

The Johns Hopkins University (the University) is a premier, privately endowed institution that provides education and related services to students and others, research and related services to sponsoring organizations, and professional medical services to patients. The University is based in Baltimore, Maryland, but also maintains facilities and operates education programs elsewhere in Maryland, in Washington, D.C. and, in certain foreign locations. The University is internationally recognized as a leader in research, teaching, and medical care.

Education and related services (e.g., room, board, etc.) are provided to approximately 21,000 students, including 13,000 full-time students and 8,000 part-time students, and produced approximately 12% of the University's net operating revenues in both fiscal 2013 and 2012. The full-time students are divided about equally between graduate level (including postdoctoral) and undergraduate level. Students are drawn from a broad geographic area, including most of the states in the United States and numerous foreign countries. The majority of the part-time students are graduate level students from the Baltimore-Washington, D.C. area.

Research and related services (e.g., research training) are provided through approximately 1,800 government and private sponsors. Grants, contracts, and similar agreements produced approximately 57% and 58% of the University's operating revenues in fiscal 2013 and 2012, respectively. Approximately 88% of these revenues come from departments and agencies of the United States government in both fiscal 2013 and 2012. Major government sponsors include the Department of Health and Human Services, the Department of Defense, the National Aeronautics and Space Administration, and the Agency for International Development.

Professional medical services are provided by members of the University's faculty to patients at The Johns Hopkins Hospital (the Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced approximately 11% of the University's operating revenues in both fiscal 2013 and 2012. The patients are predominantly from the Baltimore area, other parts of Maryland, or surrounding states.

### *(b) Basis of Presentation and Use of Estimates*

The consolidated financial statements include the accounts of the various academic and support divisions, the Applied Physics Laboratory (APL), the Johns Hopkins University Press, and affiliated organizations, which are controlled by the University, including Jhpiego Corporation and Peabody Institute of the City of Baltimore (collectively, the financial statements). All significant interentity activities and balances are eliminated for financial reporting purposes. Investments in organizations that the University does not control, including Dome Corporation, FSK Land Corporation, Johns Hopkins Healthcare LLC, Johns Hopkins Home Care Group, Inc., Johns Hopkins Medical Institutions Utilities LLC (JHMI Utilities LLC), Johns Hopkins Medicine International LLC, and other affiliated entities are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

The most significant estimates and judgments affecting the University's financial statements relate to fair values of nonmarketable investments, allowances for uncollectible accounts and contributions receivable, provisions for self-insured liabilities and property damage claims, liabilities under split-interest agreements, and the actuarial assumptions used to determine obligations under defined benefit pension and postretirement plans.

Certain amounts for fiscal 2012 have been reclassified to conform to the presentation for fiscal 2013.

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted* – Net assets subject to donor-imposed stipulations that will be met by actions of the University and/or the passage of time.
- *Permanently restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes, primarily divisional and departmental support and student financial aid.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Under Maryland law, appreciation on donor-restricted endowments is classified as temporarily restricted until appropriated for expenditure. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions, which reflect reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are placed in service.

### *(c) Cash, Cash Equivalents, and Operating Investments*

The University utilizes cash, cash equivalents, and operating investments to fund daily cash needs. Investments with maturities at dates of purchase of 90 days or less are classified as cash equivalents, and investments with maturities at dates of purchase of more than 90 days are classified as operating investments. Operating investments, which include short-term U.S. Treasury securities and other highly liquid fixed income investments, are stated at fair value, generally based on quoted market prices, and are used for general operating purposes.

Investments purchased with funds on deposit with bond trustees, with funds held in trusts by others, with split-interest agreements or by external endowment investment managers are classified with the respective assets.

### *(d) Contributions*

Contributions, including unconditional promises to give, are recognized in the appropriate category of net assets in the period received, except that contributions, which impose restrictions that are met in the same fiscal year, are included in unrestricted revenues. Unconditional promises to give are recognized initially at fair value giving consideration to anticipated future cash receipts and discounting such amounts at a risk-adjusted rate. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

Allowance is made for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Estimated collectible contributions to be received after one year are discounted using a risk-adjusted rate for the expected period of collection. Amortization of the discount is included in contributions revenue.

### *(e) Investments and Investment Return*

Investments in United States government and agency obligations, debt securities, and directly held United States and international equities are stated at fair value, which are determined primarily based on quoted market prices. Investments in private equity and venture capital, certain real estate, natural resources, marketable alternatives, and public equities held through commingled funds (collectively, alternative investments and commingled funds) are stated at estimated fair value based on the funds' net asset values (NAV), or their equivalents, as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2013 and 2012, the University had no plans or intentions to sell investments at amounts different from NAV. The NAV or their equivalents, which are estimated and reported by the general partners or investment managers, are reviewed and evaluated by the University's investment office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant. Investments in certain real estate assets are recorded at fair value based upon independent third-party appraisals.

Investments are exposed to several risks, including interest rate, credit, liquidity, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements. Liquidity risk represents the possibility that the University may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the University was forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

Investment return included in operating revenues consists of income and realized gains and losses on operating investments, including cash equivalents, and nonpooled endowment funds (except where restricted by donors). Endowment payout for pooled endowment and similar funds approved by the Board of Trustees is also recognized in operating revenues.

Unrealized gains and losses of operating investments and nonpooled endowment funds, any difference between the total return recognized and the payout for pooled endowment and similar funds, and income and realized gains restricted by donors are reported as nonoperating activities.

***(f) Property and Equipment***

Property and equipment are stated at cost, if purchased or at estimated fair value at the date of gift, if donated, less accumulated depreciation and amortization. Depreciation of buildings, equipment, and library collections and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the assets. Land and certain historic buildings are not subject to depreciation. Title to certain equipment purchased using funds provided by government sponsors is vested in the University and is included in property and equipment on the balance sheets. Certain equipment used by the APL in connection with its performance under agreements with the United States government is owned by the government. These facilities and equipment are not included in the balance sheets; however, the University is accountable to the government for them. Repairs and maintenance costs are expensed as incurred. Costs relating to retirement, disposal, or abandonment of assets where the University has a legal obligation to perform certain activities are accrued using either site-specific surveys or square foot estimates as appropriate.

Costs of purchased software are capitalized along with internal and external costs incurred during the application development stage (i.e., from the time the software is selected until it is ready for use). Capitalized costs are amortized on a straight-line basis over the expected life of the software. Computer software maintenance costs are expensed as incurred.

***(g) Fair Value Measurements***

Assets and liabilities that are reported at fair value on a recurring basis (note 6) are categorized into a fair value hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV, or its equivalent, reported by each fund is used as a practical expedient to estimate fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near June 30. If the University has the ability to redeem its interest at NAV or its equivalent within three months of June 30, the investment is classified as Level 2. Investment funds, for which the University does not have the ability to redeem within three months of June 30, are classified as Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks or liquidity of underlying assets and liabilities, but is determined by the pricing transparency or the University's ability to redeem the investment.

When observable prices are not available, certain real asset investments are valued using one or more of the following valuation techniques: market approach – this approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; income approach – this approach determines a valuation by discounting future cash flows; or cost approach – this approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset. These valuation techniques may include inputs such as price information, volatility statistics, operating statistics, specific and broad credit data, recent transactions, earnings forecasts, discount rates, reserve reports, futures pricing, and other factors.

As of June 30, 2013 and 2012, the carrying values of the University's accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses, and certain other liabilities approximate their fair values because of the terms and relatively short maturity (unobservable inputs considered Level 3 in the fair value hierarchy). An estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the United States government or its designees.

### *(h) Split-Interest Agreements and Interests in Trusts*

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuity agreements for which the University serves as trustee. Assets held under these arrangements are included in investments and are recorded at fair value. Contribution revenues are recognized at the date the trusts or agreements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts, and other changes in estimates of future benefits. Assets and liabilities under the University's charitable gift annuity agreements were $58,214 and $54,930 classified in investments and $29,383 and $32,129 classified in liabilities under split-interest agreements, respectively, as of June 30, 2013 and 2012.

The University is also the beneficiary of certain perpetual and remainder trusts held and administered by others. The fair values of the trusts are recognized as assets and contribution revenues at the dates the trusts are established. The assets held in these trusts are included in interests in trusts and endowment funds held by others and are adjusted for changes in the fair value of the trust assets through nonoperating investment return.

### *(i) Tuition and Fees Revenue and Student Financial Aid*

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The University provides financial aid to eligible students, generally in an "aid package" that includes loans, compensation under work-study programs, and/or grant and scholarship awards. The loans are provided primarily through programs of the United States government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid, and University funds.

### *(j) Sponsored Research Activities*

Revenues under grants, contracts, and similar agreements with sponsors are recognized as expenditures are incurred for agreement purposes. These revenues include recoveries of facilities and administrative costs, which are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions. Facilities and administrative cost recovery revenues for the academic and support divisions of the University were $311,524 in fiscal 2013 and $316,902 in fiscal 2012. Funds received from sponsors in advance of expenditures incurred are reported as sponsored research deferred revenues.

Approximately 80% and 73%, of receivables related to reimbursement of costs incurred under grants and contracts as of June 30, 2013 and 2012, respectively, were from agencies or departments of the United States government. There is no assurance that sponsored research activities can and will continue to be made at current levels.

### *(k) Clinical Services*

Clinical services revenues are recognized in the period in which services are rendered and are reported at the estimated net realizable amounts from patients, third-party payors, and others. Allowance is made for uncollectible accounts based primarily on past collection experience and analyses of outstanding receivables. Contractual allowances are estimated based on actual claims paid by third-party payors.

### *(l) Affiliated Institutions*

The University has separate administrative agreements for the exchange of services with the Hospital and other medical and educational institutions. Costs incurred by the University in providing services to these institutions and the related reimbursements are reported as operating expenses and revenues, respectively, in the appropriate classifications.

The University holds several endowment and similar funds, which are designated for purposes or activities that are carried out by the Hospital and The Johns Hopkins Hospital Endowment Fund Incorporated (JHHEFI). The assets of these funds are included in investments and the related income is paid to the Hospital and JHHEFI. The carrying values of the funds are adjusted for earnings from and changes in the fair values of the investments and distributions paid and are classified as liabilities on the balance sheets as endowment and similar funds held for others.

### *(m) Auxiliary Enterprises*

Auxiliary enterprises, including residence halls, food service, parking, the press, and telecommunications, provide services to students, faculty, and staff. Fees for such services are recognized as revenue as the services are provided.

### *(n) Insurance*

The University, together with other institutions, has formed captive insurance companies that arrange and provide professional liability, general liability, and property damage insurance for their shareholders. Defined portions of claims paid by these companies are self-insured. The University's claims liabilities are recognized as claims are incurred using actuarial studies based upon historical claims data, cost trends, and other actuarial estimates. Insurance expenses are recognized as operating expenses as incurred. In addition, the University is self-insured for certain other risks, primarily health and workers' compensation. Professional insurance liabilities associated with providing clinical services are reflected as gross claims on the balance sheets. In addition, medical malpractice insurance recoveries are also reported on the balance sheets as other assets. Accrued self-insurance liabilities aggregated $58,920 and $58,277 as of June 30, 2013 and 2012, respectively.

### *(o) Refundable Advances from the United States Government*

Funds provided by the United States government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds are ultimately refundable to the government and are included in other long-term liabilities. These advances totaled $29,821 and $29,881 as of June 30, 2013 and 2012, respectively.

### *(p) Income Taxes*

The University is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements.

***(q) Leases***

The University conducts certain operations in leased facilities, which have minimum lease obligations under noncancelable operating leases. Certain leases contain rent escalations, renewal options, and require payments for taxes, insurance, and maintenance. Rent expense is recognized in operations as incurred, except for escalating rents, which are recognized on a straight-line basis over the life of the lease.

The University also enters into lease agreements that are classified as capital leases. Buildings and equipment under capital leases are recorded at the lower of the net present value of the minimum lease payments or the value of the leased asset at the inception of the lease.

***(r) Derivative Financial Instruments***

The University and their external investment managers are authorized and do use specified derivative financial instruments in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Trustees. The University uses interest rate swap agreements to manage interest rate risk associated with certain variable rate debt or to adjust its debt structure. Derivative financial instruments are measured at fair value and recognized in the balance sheets as assets or liabilities, with changes in fair value recognized in the statements of activities.

***(s) Statement of Cash Flows***

Property and equipment additions included in accounts payable and accrued expenses and transfers from affiliates as of June 30, 2013 and 2012 were $25,454 and $13,319, respectively.

**(2) Applied Physics Laboratory**

The Applied Physics Laboratory (APL), located in Howard County, Maryland, was established during World War II with funding from the United States government. APL functions as a research facility and conducts research and development primarily in national defense and space sciences. The University owns and operates the facility and conducts research under a multiple task order contract with the United States Navy (the Navy Contract) and separate contracts with other government agencies. APL is organized as a Limited Liability Company (LLC), wholly owned by the University, and operating as a division of the University.

In accordance with an agreement between the United States government and the University, APL has been designated a national resource. Under the agreement, if the University determines that it can no longer sponsor APL or the Secretary of the Navy determines that the Navy can no longer contract with the University with respect to APL on mutually satisfactory terms, the University is required to establish a charitable trust to provide for the continued availability of the APL. The trust would be administered by five trustees and the corpus would consist of the University's interest in the APL facilities, including land to the extent necessary, and the balances in the University's APL stabilization, contingency, and research fund on the date the trust is established, less certain costs. Upon termination of the trust, the corpus, in whole or in part, as determined by the trustees would be returned to and held and used by the University for such educational or research purposes and in such manner as the trustees and University agree.

(Dollars in thousands)

The University works under an omnibus contract with the U.S. Navy. The most recent contract was signed in February 2013. The new Navy Contract provides for a five-year initial term ending in September 2017, plus a five-year renewal option, and establishes an aggregate purchase limit of $4.9 billion over the ten-year contract period. The prior contract was signed in 2002, ran for a five-year initial term and a five-year optional renewal term, and provided for an aggregate purchase limit of $4.7 billion for its scheduled ordering period, which ended on September 30, 2012. The prior contract allowed for a twelve-month period following conclusion of the ordering period for additional funding and completion of existing task orders. APL has continued to work on task orders under the prior contract during fiscal 2013.

APL revenues for the fiscal year ended June 30, 2013 were approximately $1.1 billion and represented approximately 24% of the University's operating revenues. Approximately 78% and 15% of APL's revenues in fiscal 2013 were from the Department of Defense (primarily under the Navy Contract) and the National Aeronautics and Space Administration, respectively. Contract work includes evaluation and design of various types of missile systems and command, control, and communication systems, assessment of submarine technologies, design of space systems for precision tracking, location and navigation, and conduct of space experiments. The contracts define costs for which reimbursements may be received and provide a management fee to the University. The Navy Contract requires that a portion of the fees earned under the Navy Contract be retained and used for various APL-related purposes, including, among other things, APL working capital, capital projects at APL and APL reserves.

## (3) Sponsored Research Accounts Receivable and Other Accounts Receivable

Sponsored research accounts receivable as of June 30, 2013 and 2012 of $321,912 and $323,176, respectively, are net of allowances of $13,418 and $20,551, respectively. Other accounts receivable, net, are summarized as follows as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| FICA refund receivable | $ | 2,813 | 77,869 |
| Affiliated institutions, primarily the Hospital (note 11) | | 25,343 | 33,061 |
| Students | | 12,842 | 9,452 |
| Others | | 46,855 | 30,013 |
| Total net of allowances of $5,782 in 2013 and $5,997 in 2012 | | 87,853 | 150,395 |
| Receivables for clinical professional fees, net of contractual and bad debt allowances of $112,455 in 2013 and $99,225 in 2012 | | 55,822 | 48,342 |
| | $ | 143,675 | 198,737 |

In March 2010, the Internal Revenue Service (IRS) announced an administrative determination to accept the position that medical residents are exempt from Federal Insurance Contributions Act (FICA) taxes for calendar years 1991 to 2002. In August 2012, the University was notified by the IRS that the claims were approved and began receiving refund checks including interest in fiscal 2013. As of June 30, 2013, the

(Dollars in thousands)

University is awaiting final IRS approval for three quarters. A corresponding liability was recorded for the amounts originally paid by the medical residents, the Hospital, and other affiliates. Amounts owed to the Hospital and other affiliates were paid in fiscal 2013. Amounts owed to the medical residents, approximately $34,000, are expected to be paid in fiscal 2014 and are accrued as of June 30, 2013.

The mix of gross accounts receivable for clinical professional fees from patients and third-party payors consisted of the following as of June 30, 2013 and 2012: commercial third parties 43% and 44%, respectively; Medicare 20% and 19%, respectively; Medicaid 8% and 10%, respectively; Blue Cross/Blue Shield 9% and 8%, respectively; and patients 20% and 19%, respectively.

## (4) Contributions Receivable

Contributions receivable, net, are summarized as follows as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Unconditional promises scheduled to be collected in: | | | |
| Less than one year | $ | 75,282 | 73,598 |
| One year to five years | | 141,993 | 184,428 |
| Over five years | | 1,611 | 7,429 |
| | | 218,886 | 265,455 |
| Less unamortized discount (interest ranging from 0.7% to 5.1%) and allowances for uncollectible contributions | | 16,716 | 18,971 |
| | $ | 202,170 | 246,484 |

As of June 30, 2013 and 2012, 44% and 48%, respectively, of the gross contributions receivable were due from ten donors. Approximately 39% and 40% of contribution revenues for fiscal 2013 and 2012, respectively, were from ten donors. As of June 30, 2013, the University had also been informed of bequest intentions and conditional promises to give aggregating in excess of $700,000, which have not been recognized as assets or revenues. If received, these gifts will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of the University.

## (5) Investments and Investment Return

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and managers. The Committee on Investments of the Board of Trustees oversees the University’s investment program in accordance with established guidelines, which cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of market risk (at both the individual issuer and industry group levels), credit quality of fixed-income and short-term investments, use of derivatives, investments in foreign securities, and various other matters. The managers may make use of exchange-traded interest rate futures contracts, forward currency contracts, and other derivative instruments.

(Dollars in thousands)

Investments are summarized as follows as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Operating investments | $ | 825,581 | 820,488 |
| Investments | | 3,874,737 | 3,492,777 |
| | | 4,700,318 | 4,313,265 |
| Cash and cash equivalents | | 158,891 | 170,745 |
| United States government and agency obligations | | 822,437 | 711,262 |
| Debt securities | | 304,808 | 335,489 |
| United States equities | | 471,160 | 417,341 |
| International equities | | 818,361 | 696,055 |
| Private equity and venture capital | | 552,228 | 538,002 |
| Real estate | | 411,503 | 366,959 |
| Natural resources | | 328,527 | 292,035 |
| Marketable alternatives | | 744,876 | 703,996 |
| Other | | 87,527 | 81,381 |
| | $ | 4,700,318 | 4,313,265 |

As of June 30, 2013 and 2012, other investments represent investments held by the University under deferred compensation agreements. Such amounts approximate the University's related liability to employees, which are included in other long-term liabilities.

The following table summarizes the University's investments as of June 30, 2013 and 2012 for which NAV was used as a practical expedient to estimate fair value:

| | | Fair value determined using NAV | | Unfunded commitments | | Redemption frequency | Redemption notice period |
|---|---|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 | 2013 | 2013 |
| United States equities | $ | — | 51,382 | — | — | — | — |
| International equities | | 686,866 | 608,406 | — | — | 83% Monthly<br>12% Quarterly<br>5% Annually | 1 to 120 days |
| Private equity and venture capital | | 552,228 | 538,002 | 261,803 | 217,771 | N/A | N/A |
| Real estate | | 212,200 | 190,063 | 149,081 | 157,736 | N/A | N/A |
| Natural resources | | 328,527 | 292,035 | 135,311 | 128,772 | N/A | N/A |
| Marketable alternatives | | 744,876 | 703,996 | 68,610 | 76,720 | See chart below | 14 to 180 days |
| | $ | 2,524,697 | 2,383,884 | 614,805 | 580,999 | | |

(Dollars in thousands)

Marketable alternatives have the following redemption periods as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Marketable alternatives: | | | |
| Quarterly redemptions | $ | 52,535 | 50,314 |
| Annual redemptions | | 222,765 | 181,114 |
| Quarterly or annual over 1- to 3-year period | | 196,269 | 169,790 |
| Rolling 3-year redemption | | 60,715 | 43,170 |
| Drawdown funds over 10-year period | | 212,592 | 259,608 |
| | $ | 744,876 | 703,996 |

Information with respect to investee strategies and redemptions for those investments in funds whose fair value is estimated based upon reported NAVs follow.

**United States and International equities**: This includes commingled funds that invest in publicly traded common stock of domestic, developed, and emerging market companies. One fund offers annual liquidity while all other funds allow monthly or quarterly redemptions with various notice requirements ranging from 1 to 120 days.

**Private equity and venture capital**: This includes funds making investments in leveraged buyouts of both public and private companies, as well as investments in venture capital, growth-stage investing, and distressed debt. These are limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take up to 10 years to fully distribute those assets.

**Natural resources**: This includes limited partnerships making investments in oil and gas, timber, agriculture, minerals, and other commodities. These investments make distributions to investors through the liquidation of the underlying assets. It is expected to take up to 15 years to fully distribute those assets.

**Real estate**: This includes limited partnerships making investments in real estate. These investments make distributions to investors through the liquidation of underlying assets. It is expected to take up to 15 years to fully distribute these assets.

**Marketable alternatives**: This includes multistrategy, credit and distressed debt, relative value, and event-driven funds in hedge fund and drawdown formats. Hedge funds have various redemption periods as summarized in the table above, with notice requirements ranging from 14 to 180 days. Drawdown funds are limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take up to 10 years to fully distribute these drawdown funds.

(Dollars in thousands)

Investment return is summarized as follows for the years ended June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Dividend and interest income | $ | 56,296 | 49,023 |
| Net realized and unrealized gains | | 324,516 | 36,369 |
| External investment management fees and expenses | | (22,245) | (18,497) |
| Change in value of interests in trusts and endowment funds held by others | | 4,483 | (1,843) |
| | $ | 363,050 | 65,052 |

Investment return is classified in the statements of activities as follows for the years ended June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Unrestricted net assets: | | | |
| Operating, including endowment payout | $ | 145,915 | 150,732 |
| Nonoperating | | 80,415 | (36,838) |
| Temporarily restricted net assets | | 117,952 | (49,475) |
| Permanently restricted net assets | | 18,768 | 633 |
| | $ | 363,050 | 65,052 |

(Dollars in thousands)

## (6) Fair Value Measurements

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2013:

| | Fair value as of June 30, 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Operating investments: | | | | |
| United States government and agency obligations | $ 541,056 | 541,056 | — | — |
| Debt securities | 284,525 | 102,569 | 181,956 | — |
| Total operating investments | 825,581 | 643,625 | 181,956 | — |
| Investments: | | | | |
| Cash and cash equivalents | 158,891 | 158,891 | — | — |
| United States government and agency obligations | 281,381 | 281,381 | — | — |
| Debt securities | 20,283 | 20,283 | — | — |
| United States equities | 471,160 | 471,160 | — | — |
| International equities | 818,361 | 131,495 | 640,211 | 46,655 |
| Private equity and venture capital | 552,228 | — | — | 552,228 |
| Real estate | 411,503 | 15,953 | — | 395,550 |
| Natural resources | 328,527 | — | — | 328,527 |
| Marketable alternatives | 744,876 | — | 52,535 | 692,341 |
| Other | 87,527 | 87,527 | — | — |
| Total investments | 3,874,737 | 1,166,690 | 692,746 | 2,015,301 |
| Other assets: | | | | |
| Deposits with bond trustees | 431 | 431 | — | — |
| Interests in trusts and endowment funds held by others | 105,501 | — | 77,094 | 28,407 |
| Total assets | $ 4,806,250 | 1,810,746 | 951,796 | 2,043,708 |
| Liabilities: | | | | |
| Interest rate swaps | $ 20,123 | — | 20,123 | — |
| Obligations under deferred compensation agreements | 86,114 | — | 86,114 | — |
| Endowment and similar funds held for others | 519,624 | — | — | 519,624 |
| Total liabilities | $ 625,861 | — | 106,237 | 519,624 |

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2012:

| | Fair value as of June 30, 2012 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Operating investments: | | | | |
| United States government and agency obligations | $ 513,280 | 513,280 | — | — |
| Debt securities | 307,208 | 307,208 | — | — |
| Total operating investments | 820,488 | 820,488 | — | — |
| Investments: | | | | |
| Cash and cash equivalents | 170,745 | 170,745 | — | — |
| United States government and agency obligations | 197,982 | 197,982 | — | — |
| Debt securities | 28,281 | 28,281 | — | — |
| United States equities | 417,341 | 365,959 | 51,382 | — |
| International equities | 696,055 | 87,649 | 608,406 | — |
| Private equity and venture capital | 538,002 | — | — | 538,002 |
| Real estate | 366,959 | 16,685 | — | 350,274 |
| Natural resources | 292,035 | — | — | 292,035 |
| Marketable alternatives | 703,996 | — | 50,314 | 653,682 |
| Other | 81,381 | 81,381 | — | — |
| Total investments | 3,492,777 | 948,682 | 710,102 | 1,833,993 |
| Other assets: | | | | |
| Deposits with bond trustees | 558 | 558 | — | — |
| Interests in trusts and endowment funds held by others | 103,231 | — | 76,110 | 27,121 |
| Total assets | $ 4,417,054 | 1,769,728 | 786,212 | 1,861,114 |
| Liabilities: | | | | |
| Interest rate swaps | $ 34,461 | — | 34,461 | — |
| Obligations under deferred compensation agreements | 81,050 | — | 81,050 | — |
| Endowment and similar funds held for others | 480,629 | — | — | 480,629 |
| Total liabilities | $ 596,140 | — | 115,511 | 480,629 |

(Dollars in thousands)

The methods and assumptions used to estimate the fair value of assets are defined in note 1g. Certain Level 3 real assets are based on unobservable inputs that utilize a market and income approach to determine fair value. The valuations are based on discounted cash flow and recent market transactions. The methods and assumptions used to estimate the fair value of interest rate swap liabilities are defined in note 8h. The fair value of the obligations under deferred compensation agreements is equal to the fair value of the other investment assets, which are determined using quoted market prices. The fair value of the endowment and similar funds held by others is determined using the estimated per share price of the Endowment Investment Pool (EIP) at the reporting date multiplied by the number of shares in the EIP held by others.

The following tables present the University's activity for Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012:

| | | International Equities | Private equity and venture capital | Real estate | Natural resources | Marketable alternatives | Interests in trusts and endowments held by others | Total |
|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | |
| Balance as of June 30, 2011 | $ | — | 541,547 | 299,984 | 228,225 | 678,696 | 27,796 | 1,776,248 |
| Dividend and interest income | | — | 6,348 | 1,660 | 1,495 | 4,243 | — | 13,746 |
| Net realized and unrealized gains (losses) | | — | 58,104 | 23,173 | 32,490 | (1,883) | (675) | 111,209 |
| Purchases and calls | | — | 65,568 | 52,404 | 57,209 | 58,144 | — | 233,325 |
| Sales and distributions | | — | (133,565) | (26,947) | (27,384) | (85,518) | — | (273,414) |
| Balance as of June 30, 2012 | | — | 538,002 | 350,274 | 292,035 | 653,682 | 27,121 | 1,861,114 |
| Transfers from Level 2 to Level 3 | | 29,466 | — | — | — | — | — | 29,466 |
| Dividend and interest income | | — | 11,102 | 5,143 | 6,021 | 3,208 | — | 25,474 |
| Net realized and unrealized gains | | 7,189 | 67,920 | 37,371 | 4,295 | 104,288 | 1,286 | 222,349 |
| Purchases and calls | | 10,000 | 67,725 | 47,022 | 44,893 | 70,463 | — | 240,103 |
| Sales and distributions | | — | (132,521) | (44,260) | (18,717) | (139,300) | — | (334,798) |
| Balance as of June 30, 2013 | $ | 46,655 | 552,228 | 395,550 | 328,527 | 692,341 | 28,407 | 2,043,708 |

(Dollars in thousands)

| | Endowment and similar funds held for others |
|---|---|
| Liabilities: | |
| Balance as of June 30, 2011 | $ 489,252 |
| Net realized and unrealized gains | 3,479 |
| Purchases and issuances | 8,279 |
| Sales and settlements | (20,381) |
| Balance as of June 30, 2012 | 480,629 |
| Net realized and unrealized gains | 55,923 |
| Purchases and issuances | 53 |
| Sales and settlements | (16,981) |
| Balance as of June 30, 2013 | $ 519,624 |

For the years ended June 30, 2013 and 2012, the University did not have any transfers between fair value Levels 1 and 2. As of June 30, 2013, investments that were no longer redeemable within 90 days after year-end were transferred from Level 2 to Level 3. The University did not have any transfers between Level 2 and Level 3 for the year ended June 30, 2012.

## (7) Property and Equipment

Property and equipment, net, are summarized as follows as of June 30, 2013 and 2012:

| | 2013 | 2012 | Range of useful lives |
|---|---|---|---|
| Land | $ 76,324 | 76,324 | N/A |
| Land improvements | 86,339 | 84,975 | 15 years |
| Buildings and leasehold improvements | 2,867,472 | 2,678,694 | 10 – 40 years |
| Equipment | 781,407 | 718,738 | 7 – 15 years |
| Capitalized software costs | 114,718 | 111,217 | 3 – 10 years |
| Library collections | 254,856 | 241,054 | 25 years |
| Construction in progress | 99,172 | 146,111 | N/A |
| | 4,280,288 | 4,057,113 | |
| Less accumulated depreciation and amortization | 2,164,251 | 1,953,838 | |
| | $ 2,116,037 | 2,103,275 | |

(Dollars in thousands)

## (8) Debt

Debt is summarized as follows as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Bonds payable | $ | 1,029,272 | 997,313 |
| Notes payable | | 82,672 | 97,027 |
| Commercial paper revenue notes – tax-exempt | | 245,565 | 255,528 |
| Commercial paper revenue notes – taxable | | 28,628 | 28,628 |
| Capital lease obligations (note 14) | | 51,807 | 53,552 |
| | $ | 1,437,944 | 1,432,048 |

### *(a) Bonds Payable*

Bonds payable were issued by Maryland Health and Higher Educational Facilities Authority (MHHEFA), except for the Taxable Bonds issued directly, and consist of the following as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Revenue Bonds Series 2001B, 5.30%, due July 2041, net of unamortized premium of $340 in 2012 | $ | — | 15,340 |
| Revenue Bonds Series 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $947 in 2012 | | — | 93,452 |
| Revenue Bonds Series 2005A, variable rate, due July 2036 | | 69,265 | 69,265 |
| Revenue Bonds Series 2008A, 5.00% to 5.25%, due July 2038, including unamortized premium of $4,739 in 2013 and $5,007 in 2012 | | 119,619 | 134,887 |
| Revenue Bonds Series 2008B, variable rate, due July 2027 | | — | 105,830 |
| Taxable Bonds 2009 Series A, 5.25%, due July 2019, net of unamortized discount of $80 in 2013 and $189 in 2012 | | 199,920 | 399,811 |
| Revenue Bonds Series 2012A, 4.00% to 5.00%, due July 2041, including unamortized premium of $24,239 in 2013 and $25,578 in 2012 | | 177,389 | 178,728 |
| Taxable Bonds 2013 Series A, 4.085% due July 2053 | | 355,000 | — |
| Revenue Bonds Series 2013B, 4.25% to 5.00% due July 2041, including unamortized premium of $8,454 in 2013 | | 108,079 | — |
| | $ | 1,029,272 | 997,313 |



(Continued)

The bonds payable outstanding as of June 30, 2013 and 2012 are unsecured general obligations of the University. The loan agreements generally provide for semiannual or annual payments of interest. The Series 2005A bonds bear interest at a variable rate, which is reset on a weekly basis (0.04% and 0.12% at June 30, 2013 and June 30, 2012, respectively) and provide for monthly payments of interest. The Series 2008B bonds, which were refunded in fiscal 2013, bear interest at a variable rate, which is reset on a weekly basis (0.16% at June 30, 2012) and provided for monthly payments of interest. The Series 2008A bonds provide for serial principal payments prior to maturity of $15,000 and $30,000 in 2013 and 2018, respectively.

In February 2013, the University issued fixed rate taxable bonds of $355,000 (Series 2013A bonds). The Series 2013A bonds are subject to redemption prior to final maturity. The bonds provide for annual sinking fund payments of $71,000 in 2049 through 2053. Proceeds from the Series 2013A bonds were used to refund the Series 2008B bonds and $200,000 of the Series 2009A bonds. As a result of this refunding, the University recognized a loss of $42,109 in fiscal 2013, which includes a redemption premium payment of $40,885 and $1,224 for the write-off of unamortized bond issuance costs and original issue discounts associated with the Series 2008B and 2009A bonds.

In June 2013, the University, through MHHEFA, issued fixed rate tax-exempt bonds of $99,625 (Series 2013B bonds). The bonds consist of $60,475 of serial bonds with maturities starting 2020 through 2038 and a $39,150 term bond with maturity of 2041. The Series 2013B bonds are subject to redemption prior to final maturity. The bonds provide for annual principal payments of $8,595 in 2020, 2022, and 2023, $8,590 in 2021, and $13,050 in 2037 and 2038. Sinking fund payments on the term bond are $13,050 in 2039 through 2041. Proceeds from the Series 2013B bonds were used to refund the remaining $15,000 principal of the Series 2001B bonds and to advance refund the Series 2004A bonds through an irrevocable trust administered by MHHEFA. As a result of this refunding, the University recognized a loss of approximately $3,873 in fiscal 2013.

In June 2012, the University, through MHHEFA, issued fixed rate tax-exempt bonds of $153,150 (Series 2012A bonds). The bonds consist of $80,600 of serial bonds with maturities starting 2023 through 2032 and $72,550 of term bonds with maturities of 2037 and 2041. The Series 2012A bonds are subject to redemption prior to final maturity. The bonds are initially interest only until 2023 and then provide for annual principal payments of $8,060 starting in 2023 through 2039 and annual principal payments of 8,065 in 2040 and 2041. Proceeds from the Series 2012A bonds were used to refund the Series 2002A bonds and a portion of the Series 2001B bonds. As a result of this refunding, the University recognized a loss of approximately $3,532 in fiscal 2012, which includes the write-off of unamortized bond issuance costs and original issue discounts associated with the Series 2001B and 2002A Bonds.

(Dollars in thousands)

***(b) Notes Payable***

Notes payable consist of the following as of June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| MHHEFA note due June 2013 | $ | — | 3,910 |
| MHHEFA note due November 2015 | | 11,705 | 16,000 |
| MHHEFA note due November 2020 | | 9,489 | 10,433 |
| MHHEFA note due February 2025 | | 3,061 | 3,268 |
| MHHEFA note due July 2026 | | 4,703 | 4,884 |
| Note due December 2019, 8.88% | | 43,504 | 47,863 |
| Note due February 2014, 4.75% | | 7,553 | 7,800 |
| Note due February 2044, 4.75% | | 1,878 | 1,878 |
| Note due March 2017, 2.25% | | 779 | 991 |
| | $ | 82,672 | 97,027 |

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University, bear interest at a variable rate 0.85% and 0.50% as of June 30, 2013 and 2012, respectively, in monthly installments. Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances (none required as of June 30, 2013 or 2012).

The note due December 2019 is secured by certain of the University's property and is due in annual installments with interest payable monthly.

The notes due February 2014 and February 2044 are unsecured general obligations of the University and may not be prepaid prior to their respective maturity dates. The note due February 2014 provides for monthly principal and interest payments based on a 25-year amortization schedule with full principal repayment by the maturity date. The note due February 2044 provides for monthly interest payments until the maturity date at which time the entire amount of the principal and unpaid accrued interest is due.

The note due March 2017 was issued by the Maryland Energy Administration in the principal amount of $1,500 to fund energy efficient improvements. The note is an unsecured obligation of the University and is payable in semiannual installments.

***(c) Commercial Paper***

Under the commercial paper program, the University may have commercial paper outstanding of up to $400,000. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from the date of issue. The notes outstanding as of June 30, 2013 bear interest at a weighted average rate of 0.13%.

(Dollars in thousands)

The tax-exempt commercial paper revenue notes were issued by MHHEFA to finance and refinance the costs of qualified assets. It is anticipated that the University will continuously renew maturing notes for a period of up to 120% of the estimated useful lives of the related assets.

### *(d) Interest Costs*

Total interest costs incurred and paid were $58,171 in 2013 and $58,729 in 2012, of which $3,595 in 2013 and $4,734 in 2012 were capitalized. Accrued interest as of June 30, 2013 and 2012 was $199 and $416, respectively. There was no interest income in 2013 or 2012 earned from the investment of the unexpended proceeds of certain tax-exempt borrowings.

### *(e) Debt Covenants*

Certain of the University's debt agreements include covenants that require the University to maintain minimum financial ratios. The University was in compliance with its covenant requirements as of and for year ended June 30, 2013.

### *(f) Fair Value*

The carrying amounts of debt with variable interest rates, including commercial paper, approximate fair value because the rates reflect the current market rates for debt instruments with similar maturities and credit quality (Level 2 fair value hierarchy). The fair value of fixed rate debt is estimated based upon quoted market prices for publicly traded issues with similar terms and average maturities (Level 2 fair value hierarchy). The fair value estimates, at a specific point in time, are subjective in nature and involve judgment. The University is not obligated to settle its debt at fair value. The carrying amount and estimated fair value of the University's debt is summarized below as of June 30:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| Fixed rate | $ 1,065,528 | 1,054,995 | 934,302 | 1,057,471 |
| Variable rate | 372,416 | 372,416 | 497,746 | 497,746 |
| Total | $ 1,437,944 | 1,427,411 | 1,432,048 | 1,555,217 |

(Dollars in thousands)

### *(g) Other Credit Agreements*

To support liquidity requirements under the bond and commercial paper revenue notes programs with MHHEFA, the University has three standby liquidity support agreements with commercial banks as follows:

| Line of credit | Maturity | Annual fees |
|---|---|---|
| $ 175,000 | January 2016 | 35 basis points |
| 100,000 | January 2016 | 34 basis points |
| 100,000 | April 2017 | 40 basis points |

These agreements are intended to enable the University to fund the purchase of variable rate demand bonds, which are tendered and not remarketed, and to pay the maturing principal of and interest on commercial paper notes in the event they cannot be remarketed. Advances under these agreements are unsecured, bear interest at a rate that varies based on certain market indices, and are due by the stated expiration date. There were no borrowings under the University's standby liquidity support agreements during fiscal 2013 and 2012.

Under terms of a master note agreement with a commercial bank, the University may borrow up to $100,000 under a line of credit for APL working capital purposes. Advances under the line of credit are unsecured, due on demand, and bear interest at a rate that varies based on certain market indices. The fee for this agreement is 45 basis points for a 1-year term, 15 basis points for a 1-year renewal term, and the unused line fee is 14 basis points per annum. There were no borrowings outstanding on the line of credit as of June 30, 2013 or 2012.

### *(h) Interest Rate Swap Agreements*

Under interest rate swap agreements, the University and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

The following table summarizes the general terms of cash of the University's swap agreements:

| | Effective date | Notional amount | Termination date | Interest rate paid | Interest rate received |
|---|---|---|---|---|---|
| Fixed payor swap | June 2005 | $ 69,265 | July 2036 | 3.87% | SIFMA<br>0.06% as of June 30, 2013 |
| Fixed payor swap | July 2007 | 10,495 | July 2027 | 3.45 | 67.00% of 1-month LIBOR<br>0.13% as of June 30, 2013 |
| Fixed payor swap | July 2008 | 95,335 | July 2020 | 3.43 | 67.00% of 1-month LIBOR<br>0.13% as of June 30, 2013 |

(Dollars in thousands)

Parties to interest rate swap agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty.

The fair value of each swap is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date considering current interest rates and creditworthiness of the swap counterparties. The aggregate fair value of the University's interest rate swap agreements as of June 30, 2013 and 2012 was a liability of $20,123 and $34,461, respectively, excluding accrued interest and is reported as other liabilities. Changes in the fair value of the interest rate swap agreements are reported as nonoperating activities. The change in fair value was a gain of approximately $14,338 and a loss of approximately $18,556, net of the swap termination fee, in fiscal 2013 and fiscal 2012, respectively.

The University is required to post collateral under these agreements under certain events. As of June 30, 2013 and 2012, $8,000 and $14,100, respectively, was held by the counterparty and was included in cash and cash equivalents, of which $11,700 was required collateral as of June 30, 2012. There was no required collateral as of June 30, 2013.

### *(i) Annual Principal Payments*

The following table summarizes the aggregate annual maturities of bonds payable, notes payable, and the maturities of specific commercial paper revenue note tranches, for the five years subsequent to June 30, 2013:

| | Bonds payable | Notes payable | Commercial paper notes | Total |
|---|---|---|---|---|
| 2014 | $ — | 24,589 | 11,200 | 35,789 |
| 2015 | — | 7,980 | 10,737 | 18,717 |
| 2016 | — | 7,495 | 16,168 | 23,663 |
| 2017 | — | 7,947 | 12,551 | 20,498 |
| 2018 | 30,000 | 8,481 | 52,997 | 91,478 |

(Dollars in thousands)

## (9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Contributions restricted for departments and divisions | $ 315,411 | 334,441 |
| Endowment return restricted for departments, divisions, and student aid | 592,065 | 473,226 |
| Contributions restricted for facilities | 61,924 | 83,661 |
| Split-interest agreements designated for departmental and divisional support | 31,832 | 32,827 |
| Land subject to time and purpose restrictions | 74,000 | 74,000 |
| | $ 1,075,232 | 998,155 |

Permanently restricted net assets consist of donor-restricted endowment funds, perpetual trusts, and contributions receivable, in which income is available for the following purposes as of June 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Departmental and divisional support | $ 1,269,657 | 1,180,124 |
| Student aid | 291,819 | 274,899 |
| | $ 1,561,476 | 1,455,023 |

## (10) University Endowment

The University's endowment consists of approximately 3,400 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the Maryland enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The Board of Trustees of the University manages and invests the individual endowment funds in the exercise of ordinary business care and prudence under facts and circumstances and considering the purposes, factors, and other requirements of UPMIFA. The University classifies as permanently restricted net assets (a) the original value of gifts donated, which are donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment, which are not expendable on a current basis in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees, or, if in an underwater position (fair value below historical cost), as unrestricted net assets. Subsequent gains that restore the fair value of underwater endowments to the required level will be classified as an increase in unrestricted net assets.

(Dollars in thousands)

The University has adopted investment policies for its endowment, including board-designated funds, which attempt to provide a predictable stream of funding in support of the operating budget, while seeking to preserve the real value of the endowment assets over time. The University relies on a total return strategy under which investment returns are achieved through both appreciation (realized and unrealized) and yield (interest and dividends). Investments are diversified by asset class, as well as by investment manager and style, with a focus on achieving long-term return objectives within prudent risk constraints.

Subject to the intent of the donor, the Board of Trustees appropriates for expenditure or accumulates funds in the endowments in the exercise of ordinary business care and prudence under the facts and circumstances and considering the purposes, factors, and other requirements of UPMIFA. The annual appropriation is determined in the context of the University's spending rate policy. The current policy, which is based on a long-term investment return assumption as well as an estimated inflation factor, targets the appropriation to be in a range of 4.5% to 5.5% of the prior three years' average value of the endowment.

Endowment net assets consist of the following as of June 30, 2013:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (1,946) | 592,065 | 1,402,323 | 1,992,442 |
| Board-designated endowment funds | | 926,104 | — | — | 926,104 |
| | $ | 924,158 | 592,065 | 1,402,323 | 2,918,546 |

(Dollars in thousands)

Endowment net assets consist of the following as of June 30, 2012:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (17,774) | 480,271 | 1,274,456 | 1,736,953 |
| Board-designated endowment funds | | 856,363 | — | — | 856,363 |
| | $ | 838,589 | 480,271 | 1,274,456 | 2,593,316 |

Changes in endowment net assets for the years ended June 30, 2012 and 2013 are as follows:

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Endowment net assets, June 30, 2011 | $ | 867,925 | 524,071 | 1,206,471 | 2,598,467 |
| Investment return | | 5,222 | 29,755 | 6,063 | 41,040 |
| Contributions and designations | | 18,226 | (109) | 59,886 | 78,003 |
| Appropriation for expenditure | | (52,784) | (71,410) | — | (124,194) |
| Appropriation reinvested | | — | (2,036) | 2,036 | — |
| Endowment net assets, June 30, 2012 | | 838,589 | 480,271 | 1,274,456 | 2,593,316 |
| Investment return | | 128,144 | 188,429 | 24,841 | 341,414 |
| Contributions and designations | | 10,172 | 2,094 | 100,834 | 113,100 |
| Appropriation for expenditure | | (52,747) | (76,537) | — | (129,284) |
| Appropriation reinvested | | — | (2,192) | 2,192 | — |
| Endowment net assets, June 30, 2013 | $ | 924,158 | 592,065 | 1,402,323 | 2,918,546 |

(Dollars in thousands)

## (11) Affiliated Institutions

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Johns Hopkins Health System | $ | 26,070 | 23,042 |
| Johns Hopkins Hospital | | 248,029 | 239,502 |
| Johns Hopkins Bayview Medical Center | | 63,261 | 59,238 |
| Other Johns Hopkins entities | | 59,055 | 47,739 |
| Other affiliated medical institutions | | 37,902 | 35,687 |
| | $ | 434,317 | 405,208 |

### *(a) The Johns Hopkins Health System (JHHS)*

JHHS is incorporated and governed separately from the University and is the parent entity of an academically based health system, which includes the Hospital, The Johns Hopkins Bayview Medical Center, Howard County General Hospital, Suburban Hospital, Sibley Memorial Hospital, All Children's Hospital, and other related organizations. The University and JHHS have established a Board of Johns Hopkins Medicine (JHM) to direct, integrate, and coordinate the clinical activities of the two organizations. JHM does not have the authority to incur debt or issue guarantees and its annual budgets require the approval of the Boards of Trustees of both the University and JHHS.

In fiscal 2013, the University contributed $5,000 to JHHS solely to support JHHS construction activities, which are reported as nonoperating activities in the statement of activities.

Reimbursements from JHHS relate primarily to space and purchased services for clinical and nonclinical operations.

### *(b) The Hospital*

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and the Hospital share facilities and provide services to each other to fulfill their purposes more effectively. The sharing of facilities and services is negotiated annually and set forth in a Joint Administrative Agreement (JAA). Costs charged to the Hospital under the JAA, related primarily to the provision of professional medical services from the University, aggregated $181,011 in fiscal 2013 and $170,937 in fiscal 2012. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated $43,604 in fiscal 2013 and $40,998 in fiscal 2012, and are included in operating expenses in the statements of activities.

### *(c) Johns Hopkins Bayview Medical Center (JHBMC)*

JHBMC is a community-based teaching hospital and long-term care facility. The University and JHBMC also share facilities and provide services to each other and negotiate the costs annually under a JAA. Costs charged to JHBMC under the JAA, related primarily to the provision of professional medical services from the University, aggregated $57,738 in fiscal 2013 and $54,990 in fiscal 2012.

### *(d) The Johns Hopkins Hospital Endowment Fund (JHHEFI)*

In July 2007, the University and JHHEFI entered into an agreement whereby JHHEFI transferred approximately $381,000 to the University to invest in the University’s EIP and have the University manage these assets on JHHEFI’s behalf. The funds were invested with other University assets in the University’s name and title, and in accordance with the University’s EIP investment policies and objectives. JHHEFI receives payouts as determined by their Board of Trustees and may terminate the agreement upon 180 days’ written notice with liquidations to be made over a three-year period as specified in the agreement. The assets are included in investments in the balance sheets, and a corresponding liability of $414,782 and $382,796 is included in endowment and similar funds held for others as of June 30, 2013 and 2012, respectively.

### *(e) Jointly Owned Entities*

As of June 30, 2013 and 2012, the University and JHHS and its affiliates jointly own several entities that are accounted for on the equity method. The University’s aggregate investments in and advances to these joint ventures was approximately $188,268 and $162,904 as of June 30, 2013 and 2012, respectively. Equity in earnings of affiliates aggregated approximately $18,320 in fiscal 2013 and $24,137 in fiscal 2012.

In 2005, one of these entities, JHMI Utilities LLC, was formed to provide utility services for the east Baltimore campus. The University and Hospital, each owning 50% of JHMI Utilities LLC, provide all of its funding, including debt service, through payments for services received. Utility and telecommunications services provided to the University in fiscal 2013 and 2012 were approximately $36,839 and $32,819, respectively. In 2013, JHHS and the University began the implementation through JHMI Utilities of an electronic medical record system (EPIC) across Johns Hopkins Medicine, which will provide integrated patient care information. The first phase of the systems implementation will occur at the ambulatory sites of Johns Hopkins Medicine. The cost of implementing the enterprise information technology strategy will be financed through a combination of loans from the University and JHHS. The first phase of the project will cost approximately $90,000. The University will be providing 30% or $27,000 of the funding.

Although the University’s ownership interest in each of the jointly owned entities is 50%, the University and JHHS have entered into separate agreements whereby certain activities or lines of business within these entities are not shared equally.

(Dollars in thousands)

The following table summarizes the aggregate condensed financial information of the jointly owned entities and the University's proportionate share of the entities as of and for the years ended June 30, 2013 and 2012, respectively:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Total** | **University interest** | **Total** | **University interest** |
| Assets | $ 767,542 | 341,258 | 678,816 | 302,755 |
| Liabilities | 571,312 | 259,227 | 499,878 | 224,074 |
| Operating revenues | 1,694,688 | 670,840 | 1,592,154 | 636,573 |
| Operating expenses | 1,617,404 | 652,520 | 1,504,081 | 612,671 |

## (12) Pension and Postretirement Benefit Plans

The University has several pension plans that are available to substantially all full-time employees. Most of these plans are defined contribution plans for which the University's policy is to fund pension costs as accrued. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was $205,443 in fiscal 2013 and $184,167 in fiscal 2012, including $165,311 and $159,116, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for $54,076 in fiscal 2013 and $53,599 in fiscal 2012.

Effective July 1, 2011, the University closed the support staff pension plan to new participants other than bargaining unit employees. In addition, the University offered a choice to current participants between the current support staff pension plan and the new Johns Hopkins 403b plan. The University has retiree benefits plans that provide postretirement medical benefits to employees, including those at APL, who meet specified minimum age and service requirements at the time they retire. The University pays a portion of the cost of participants' medical insurance coverage. The University's portion of the cost for an individual participant depends on various factors, including the age, years of service, and time of retirement or retirement eligibility of the participant. The University has established a trust fund for its retiree benefits plans and intends to make contributions to the fund approximately equal to the annual net postretirement benefit cost.

Effective October 1, 2011, APL made certain changes to the postretirement medical benefits. APL placed a cap on premiums paid beginning in 2017 on active staff retiring after December 31, 2012. APL also will provide no contributions to premiums for staff hired after December 31, 2011.

The actuarial gain in 2013 is primarily related to the 50-basis point increase in the discount rate and other assumption changes, including future salary increases and estimated healthcare costs. The actuarial loss in 2012 is primarily related to the 150-basis point reductions in the discount rate.

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law. The Health Care Acts include several provisions that may affect the University's postretirement benefit plans, and have been considered in the measurement of the postretirement benefit obligation.

(Dollars in thousands)

The University uses a June 30 measurement date for its defined benefit pension plan and retiree benefit plans. Information relating to the benefit obligation, assets, and funded status of the defined benefit pension plan and the postretirement benefit plans as of and for the years ended June 30, 2013 and 2012 is summarized as follows:

| | | Pension plan | | Postretirement plans | |
|---|---|---|---|---|---|
| | | **2013** | **2012** | **2013** | **2012** |
| Change in benefit obligation: | | | | | |
| Benefit obligation at beginning of year | $ | 589,267 | 430,241 | 270,010 | 256,188 |
| Service cost | | 22,341 | 17,106 | 10,226 | 8,560 |
| Interest cost | | 23,922 | 23,864 | 10,009 | 11,577 |
| Plan amendments | | — | — | — | (38,282) |
| Participant contributions | | — | — | 8,039 | 6,630 |
| Actuarial (gain) loss | | (65,089) | 131,338 | (44,989) | 41,742 |
| Benefits paid | | (13,481) | (13,282) | (18,422) | (18,198) |
| Medicare subsidies received | | — | — | 1,649 | 1,793 |
| Benefit obligation at end of year | | 556,960 | 589,267 | 236,522 | 270,010 |
| Change in plan assets: | | | | | |
| Fair value of plan assets at beginning of year | $ | 328,446 | 318,843 | 204,584 | 205,372 |
| Actual return on plan assets | | 40,631 | (1,099) | 28,622 | (2,930) |
| University contributions | | 40,132 | 23,984 | 10,329 | 11,916 |
| Participant contributions | | — | — | 8,039 | 6,630 |
| Benefits paid | | (13,481) | (13,282) | (18,422) | (18,198) |
| Medicare subsidies received | | — | — | 1,647 | 1,794 |
| Fair value of plan assets at end of year | | 395,728 | 328,446 | 234,799 | 204,584 |
| Funded status recognized as other long-term liabilities | $ | (161,232) | (260,821) | (1,723) | (65,426) |
| Cumulative amounts recognized in unrestricted net assets: | | | | | |
| Net loss | $ | (151,504) | (251,260) | (32,408) | (94,717) |
| Prior service cost | | 1,575 | 1,742 | 22,774 | 24,510 |
| Transition obligation | | — | — | — | (1,507) |
| Amount not yet recognized as pension or postretirement benefit cost (within operating expense) | $ | (149,929) | (249,518) | (9,634) | (71,714) |

(Dollars in thousands)

The accumulated benefit obligation for the pension plan was $534,166 as of June 30, 2013 and $541,452 as of June 30, 2012.

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2013 and 2012:

| | | Pension plan | | Postretirement plans | |
|---|---|---|---|---|---|
| | | **2013** | **2012** | **2013** | **2012** |
| Net (gain) loss for the year | $ | (82,817) | 155,049 | (58,962) | 59,871 |
| Prior service cost | | — | — | — | (38,282) |
| Amortization of net transition obligation | | — | — | (1,508) | (1,506) |
| Amortization of prior service cost | | 167 | 167 | 1,736 | 1,736 |
| Amortization of net loss | | (16,939) | (5,364) | (3,347) | (1,096) |
| Net (gain) loss recognized in nonoperating activities | $ | (99,589) | 149,852 | (62,081) | 20,723 |

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2014:

| | | Pension plan | Postretirement plans |
|---|---|---|---|
| Net loss | $ | (10,158) | (1,222) |
| Prior service cost | | 167 | 1,736 |
| | $ | (9,991) | 514 |

The net pension cost reported in operating expenses includes the following components for the years ended June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Service cost | $ | 22,341 | 17,106 |
| Interest cost on accumulated benefit obligation | | 23,922 | 23,864 |
| Amortization of prior service cost | | (167) | (167) |
| Expected return on plan assets | | (22,903) | (22,612) |
| Amortization of net loss | | 16,939 | 5,364 |
| | $ | 40,132 | 23,555 |

(Dollars in thousands)

The postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Service cost | $ | 10,226 | 8,560 |
| Interest cost on accumulated benefit obligation | | 10,009 | 11,577 |
| Expected return on plan assets | | (14,649) | (15,200) |
| Amortization of transition obligation | | 1,508 | 1,506 |
| Amortization of prior service cost | | (1,736) | (1,736) |
| Amortization of actuarial loss | | 3,347 | 1,096 |
| | $ | 8,705 | 5,803 |

The weighted average assumptions used to determine benefit obligations and net periodic benefit costs are as follows:

| | Pension plan | | Postretirement plans | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Weighted average assumptions used to determine benefit obligations at June 30: | | | | |
| Discount rate | 4.60% | 4.10% | 4.60% | 4.10% |
| Average rate of compensation increase | 2.90% | 4.50 | N/A | N/A |
| Rate of increase in healthcare costs for next year | N/A | N/A | 7.30 | 7.40 |
| Weighted average assumptions used to determine net periodic benefit cost: | | | | |
| Discount rate | 4.10 | 5.60 | 4.10 | 5.60 |
| Expected rate of return on plan assets | 6.75 | 7.00 | 6.50 | 6.50 |
| Rate of compensation increase | 4.50 | 4.50 | N/A | N/A |
| Rate of increase in healthcare costs | N/A | N/A | 7.40 | 7.50 |

The expected long-term rate of return for the assets of the plans is based on historical and expected long-term future asset class returns. The rate is reviewed annually and adjusted as appropriate to reflect changes in projected market performance or in the targeted asset allocations.

(Dollars in thousands)

The rate of increase in healthcare costs was assumed to decrease to 4.5% in 2028 and to remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the reported postretirement benefit cost and obligation. A one-percentage-point change in the assumed rates used at June 30, 2013 would have the following effects:

| | Increase | Decrease |
|---|---|---|
| Total service and interest cost components | $ 716 | (634) |
| Postretirement benefit obligation | 9,374 | (8,294) |

### *(a) Plans' Assets*

The purpose of the pension and postretirement plans is to meet the retirement benefit obligations of eligible University employees. The plans' assets are invested with the objective of meeting these obligations under the rules stipulated by the Employee Retirement Income Security Act (ERISA).

An asset allocation has been established, which endeavors to adequately cover the liability stream posed by the beneficiaries of the plans and minimize the frequency and amount of the plans' contributions by the University. The intended benefits of this diversification are reduced risk and improved investment returns.

The University's target asset and actual asset allocations by category as of June 30, 2013 and 2012 are as follows:

| | Pension plan | | | Postretirement plans | | |
|---|---|---|---|---|---|---|
| | Target allocation | Actual allocation 2013 | Actual allocation 2012 | Target allocation | Actual allocation 2013 | Actual allocation 2012 |
| Cash and cash equivalents | —% | —% | 1% | —% | —% | 1% |
| U.S. government obligations | 5 | — | — | — | — | — |
| Debt securities | 25 | 21 | 24 | 35 | 26 | 27 |
| United States and international equities | 50 | 65 | 64 | 65 | 66 | 64 |
| Real estate | 15 | 3 | 4 | — | — | — |
| Marketable alternatives | 5 | 11 | 7 | — | 8 | 8 |
| | 100% | 100% | 100% | 100% | 100% | 100% |

(Dollars in thousands)

### *(b) Pension plan*

The following tables present the fair value and categorization within the fair value hierarchy of the assets of the defined benefit pension plan at June 30, 2013 and 2012:

| | 2013 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents | $ 55 | 55 | — | — |
| Debt securities | 81,068 | — | 81,068 | — |
| United States equities | 107,701 | 92,089 | 15,612 | — |
| International equities | 148,831 | 23,154 | 125,677 | — |
| Real estate | 12,699 | — | 12,699 | — |
| Marketable alternatives | 45,374 | — | — | 45,374 |
| Total | $ 395,728 | 115,298 | 235,056 | 45,374 |

| | 2012 | | | |
|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents | $ 3,806 | 3,806 | — | — |
| Debt securities | 79,717 | — | 79,717 | — |
| United States equities | 83,088 | 52,395 | 30,693 | — |
| International equities | 126,012 | 40,070 | 85,942 | — |
| Real estate | 11,568 | — | 11,568 | — |
| Marketable alternatives | 24,255 | — | 6,253 | 18,002 |
| Total | $ 328,446 | 96,271 | 214,173 | 18,002 |

Defined benefit plan investments that are determined using NAV per share as a practical expedient for estimated fair value aggregated $280,430 and $232,175 as of June 30, 2013 and 2012, respectively. These investments are classified in the fair value hierarchy as Level 2 or 3 in a manner consistent with the methodology described in note 1(g). The Plan has no unfunded commitments to fund managers as of June 30, 2013.

(Dollars in thousands)

The following table presents the activity for the University's pension plan Level 3 investments for the years ended June 30, 2013 and 2012:

| | | Marketable alternatives |
|---|---|---|
| Balance as of June 30, 2011 | $ | 12,639 |
| Net realized and unrealized gains | | 363 |
| Purchases/calls | | 5,000 |
| Balance as of June 30, 2012 | | 18,002 |
| Transfers from Level 2 | | 6,253 |
| Net realized and unrealized gains | | 4,504 |
| Purchases/calls/sales | | 16,615 |
| Balance as of June 30, 2013 | $ | 45,374 |

### *(c) Postretirement plans*

The following tables present the fair value and categorization within the fair value hierarchy of the assets of the postretirement plans at June 30, 2013 and 2012:

| | | 2013 | | | |
|---|---|---|---|---|---|
| | | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ | 3,601 | 3,601 | — | — |
| Debt securities | | 62,184 | 3,523 | 58,661 | — |
| United States equities | | 68,942 | 67,103 | 1,839 | — |
| International equities | | 82,121 | 6,770 | 75,351 | — |
| Marketable alternatives | | 17,951 | — | — | 17,951 |
| Total | $ | 234,799 | 80,997 | 135,851 | 17,951 |

| | | 2012 | | | |
|---|---|---|---|---|---|
| | | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ | 2,601 | 2,601 | — | — |
| Debt securities | | 55,046 | — | 55,046 | — |
| United States equities | | 61,053 | 49,004 | 12,049 | — |
| International equities | | 70,190 | 6,669 | 63,521 | — |
| Marketable alternatives | | 15,694 | — | — | 15,694 |
| Total | $ | 204,584 | 58,274 | 130,616 | 15,694 |

(Dollars in thousands)

Postretirement plans' investments that are determined using NAV per share as a practical expedient for estimated fair value aggregated $153,801 and $146,310 as of June 30, 2013 and 2012, respectively. These investments are classified in the fair value hierarchy as Level 2 or 3 in a manner consistent with the methodology described in note 1(g). The Plans have no unfunded commitments to fund managers as of June 30, 2013.

| | | Marketable alternatives |
|---|---|---|
| Balance as of June 30, 2011 | $ | — |
| Net realized and unrealized gains | | 694 |
| Purchases/calls | | 15,000 |
| Balance as of June 30, 2012 | | 15,694 |
| Net realized and unrealized gains | | 3,307 |
| Sales/settlements | | (1,050) |
| Balance as of June 30, 2013 | $ | 17,951 |

### *(d) Cash Flows*

The University expects to contribute $4,989 to its postretirement benefit plans in 2014 and $25,175 to the pension plan in 2014.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2013 and in aggregate for the five years thereafter are as follows:

| | | Pension plan | Postretirement plans | Medicare subsidies |
|---|---|---|---|---|
| 2014 | $ | 17,694 | 12,648 | 2,711 |
| 2015 | | 19,342 | 13,382 | 3,032 |
| 2016 | | 20,573 | 14,155 | 3,364 |
| 2017 | | 22,126 | 15,080 | 3,745 |
| 2018 | | 23,779 | 16,118 | 3,052 |
| 2019 – 2023 | | 144,216 | 94,689 | 13,496 |

(Dollars in thousands)

## (13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2013 and 2012:

| | | 2013 | 2012 |
|---|---|---|---|
| Instruction, research, and clinical practice: | | | |
| Academic and support divisions | $ | 2,946,746 | 2,773,587 |
| APL contracts | | 1,082,668 | 1,046,062 |
| Student services | | 94,903 | 88,795 |
| Libraries | | 43,739 | 40,805 |
| General services and administration | | 426,333 | 396,911 |
| Auxiliary enterprises | | 104,192 | 99,486 |
| | $ | 4,698,581 | 4,445,646 |

Costs related to the operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities.

## (14) Lease Commitments

The University leases certain facilities from the Hospital under a renewable one-year lease, which provides for a rent equal to the cost to the Hospital of providing and maintaining the facilities. This lease has been renewed for the year ended June 30, 2014.

The University leases other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2032, subject to renewal options in certain cases. Certain of these facilities are leased from affiliated entities.

The aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms of these leases, excluding the rentals to the Hospital under the JAA, are as follows as of June 30, 2013:

| | | Affiliates | Others | Total |
|---|---|---|---|---|
| 2014 | $ | 10,568 | 26,799 | 37,367 |
| 2015 | | 10,522 | 24,307 | 34,829 |
| 2016 | | 9,187 | 21,266 | 30,453 |
| 2017 | | 7,182 | 16,457 | 23,639 |
| 2018 | | 6,678 | 13,248 | 19,926 |
| After 2018 | | 28,460 | 34,307 | 62,767 |
| | $ | 72,597 | 136,384 | 208,981 |

Rental expense for the long-term operating leases was $40,844 in fiscal year 2013 and $44,174 in fiscal year 2012.


(Continued)

(Dollars in thousands)

The University also leases building and leasehold improvements and certain equipment under capital leases. The following is a summary of minimum lease payments for these leases as of June 30, 2013:

| | | |
|---|---|---|
| 2014 | $ | 5,942 |
| 2015 | | 6,114 |
| 2016 | | 6,291 |
| 2017 | | 6,474 |
| 2018 | | 6,662 |
| After 2018 | | 56,548 |
| Minimum lease payments | | 88,031 |
| Less imputed interest (at rates from 4.51% to 8.41%) | | 36,224 |
| Present value of minimum lease payments | $ | 51,807 |

As of June 30, 2013, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to $60,720 and $21,778, respectively.

## (15) Other Commitments and Contingencies

### *(a) Commitments and Guarantees*

The University has the following additional commitments and guarantees relating to affiliated organizations:

- The University has guaranteed payment of principal and interest on the Series 2005B Bonds issued by MHHEFA for JHMI Utilities LLC. JHMI Utilities LLC is equally owned by the Hospital and the University. The proceeds of the 2005B Bonds ($24,300) and the Hospital guaranteed 2005A Bonds ($24,545) financed the construction, renovation, and equipping of a central power plant serving primarily the facilities of the Hospital and University in East Baltimore. The University's guarantee continues until maturity of the bonds in 2035.
- The University and the Hospital have also provided guarantees of principal and interest payments related to loans granted to JHMI Utilities LLC under the MHHEFA Pooled Loan Program. These loans were primarily used to provide additional financing for the central power plant project. As of June 30, 2013, the University's guarantee amounted to $21,072 and the Hospital's guarantee amounted to $14,858. The University's guarantees continue until maturity of the loans in 2017.
- The University, through a participation agreement with an unrelated third party, has guaranteed payment of certain financing of East Baltimore Development, Inc. up to $3,750. This guarantee continues until maturity of the loan in October 2014.

### *(b) Legal and Regulatory*

The University is subject to various claims, litigation, tax, and other assessments in connection with its domestic and foreign operations. In the opinion of management, adequate provision has been made for possible losses on these matters, where material, including insurance for malpractice and general liability claims, and their ultimate resolution will not have a significant effect on the financial position of the University.

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a material adverse effect on the financial position of the University.

***Specific Matters***

A physician formerly employed by The Johns Hopkins Health System Corporation ("JHHS") and leased to Johns Hopkins Community Health Physicians, Inc., ("JHCP") to provide obstetrical and gynecological services, illegally and without the knowledge of JHHS or its affiliates, photographed his patients and possibly others with what JHHS understands to be his personal photographic and video equipment. He then stored those images electronically. This activity occurred for an as yet unknown period of time.

Several lawsuits have been filed naming as defendants JHHS, JHCP and The John Hopkins Hospital, asserting claims arising out of, based upon, related to, or involving injuries and damages claimed as a result of the former employee photographing or videotaping activities or boundary violations while he was an actual or apparent agent, servant, or employee of JHCP or other Johns Hopkins entities. The University has not been named in any of these lawsuits.

The University, in conjunction with JHHS, its affiliates, and other related institutions, maintains both primary and excess medical malpractice insurance coverage through a captive insurer with commercial excess reinsurance policies providing additional protection. The exact amount of insurance coverage potentially available cannot be determined until the scope of claims from all claimants is known for the 2013 policy year.

On September 20, 2013, JHHS counsel was contacted by counsel for prospective plaintiffs asserting claims against JHHS, the Hospital, the Johns Hopkins Bloomberg School of Public Health, the University, and another third party institution, arising from human experiments conducted in Guatemala between 1945 and 1955 (the "Experiments"). The plantiffs' counsel provided JHHS counsel a draft complaint and indicated his intention to file the case in the Circuit Court for Baltimore County. The draft complaint alleges that physicians and scientists employed by defendants "approved, encouraged, and directed nonconsensual and nontherapeutic human experiments in Guatemala" in which research subjects were intentionally exposed to and infected with diseases without informed consent, and that the individuals were not told about the consequences of the experiments or given follow-up care, treatment, or education. The draft complaint asserts claims of lack of consent/lack of informed consent, negligence, battery, fraud or deceit by misrepresentation, fraudulent concealment, and intentional infliction of emotional distress, and seeks actual and punitive damages. On September 30, 2013, the parties executed a tolling agreement extending to January 2014. The University disputes both the factual allegations and legal claims in the draft complaint.

## (16) Subsequent Events

The University evaluated subsequent events through October 18, 2013, which is the date the financial statements were issued.

On October 11, 2013 and October 15, 2013, the University issued taxable commercial paper in the amount of $76,000 and $49,000, respectively. The weighted average rate on the taxable commercial paper is 0.30%.

There were no other matters that required adjustment to or disclosure in the financial statements.