



THE JOHNS HOPKINS UNIVERSITY
Consolidated Financial Statements
June 30, 2014 and 2013
(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, 2014 and 2013, 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, 2014 and 2013, 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, 2014

THE JOHNS HOPKINS UNIVERSITY

Consolidated Balance Sheets

June 30, 2014 and 2013

(In thousands)

Assets	2014	2013
Cash and cash equivalents	\$ 322,405	235,877
Operating investments	883,872	825,581
Cash, cash equivalents and operating investments	1,206,277	1,061,458
Sponsored research accounts receivable, net	340,445	321,912
Accounts receivable, net	137,827	143,675
Contributions receivable, net	190,428	202,170
Prepaid expenses and deferred charges	55,894	47,086
Student loans receivable, net	35,932	33,265
Investments	4,311,815	3,787,627
Property and equipment, net	2,073,658	2,116,037
Investment in and loans to affiliates	208,231	194,560
Other assets	204,611	199,080
Interests in trusts and endowment funds held by others	114,337	105,501
Total assets	\$ 8,879,455	8,212,371
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 449,054	487,033
Sponsored research deferred revenues	279,600	279,586
Other deferred revenues	112,490	108,720
Total deferred revenues	392,090	388,306
Debt	1,411,027	1,437,944
Other long-term liabilities	280,566	269,611
Pension and postretirement obligations	143,454	162,955
Liabilities under split-interest agreements	68,709	68,089
Endowment and similar funds held for others	585,120	519,624
Total liabilities	3,330,020	3,333,562
Net assets:		
Unrestricted	2,486,850	2,242,101
Temporarily restricted	1,379,841	1,075,232
Permanently restricted	1,682,744	1,561,476
Total net assets	5,549,435	4,878,809
Total liabilities and net assets	\$ 8,879,455	8,212,371

See accompanying notes to consolidated financial statements.

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets from operating activities:		
Operating revenues:		
Tuition and fees	\$ 757,427	734,928
Less financial aid	(264,501)	(257,875)
Tuition and fees, net of financial aid	<u>492,926</u>	<u>477,053</u>
Grants, contracts, and similar agreements	1,309,244	1,298,862
Facilities and administrative cost recoveries	305,007	311,524
Applied Physics Laboratory contract revenues	<u>1,223,996</u>	<u>1,132,724</u>
Sponsored research revenues	<u>2,838,247</u>	<u>2,743,110</u>
Contributions	109,917	110,517
Net assets released from restrictions	<u>87,480</u>	<u>88,481</u>
Contributions and donor support	197,397	198,998
Clinical services	578,041	543,125
Reimbursements from affiliated institutions	447,678	434,317
Other revenues	152,184	140,856
Endowment payout used to support operations	135,134	129,284
Auxiliary enterprises	96,657	94,093
Maryland State aid	17,691	16,317
Investment return	<u>15,607</u>	<u>16,631</u>
Total operating revenues	<u>4,971,562</u>	<u>4,793,784</u>
Operating expenses:		
Compensation	2,166,147	2,083,978
Benefits	<u>679,359</u>	<u>666,439</u>
Compensation and benefits	2,845,506	2,750,417
Subcontractors and subrecipients	514,772	477,852
Contractual services	593,572	567,480
Supplies, materials, and other	565,417	538,493
Depreciation and amortization	201,234	194,469
Travel	126,370	116,231
Interest	<u>54,456</u>	<u>53,639</u>
Total operating expenses	<u>4,901,327</u>	<u>4,698,581</u>
Excess of operating revenues over operating expenses	<u>70,235</u>	<u>95,203</u>

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Consolidated Statements of Activities

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets from nonoperating activities:		
Investment return in excess of endowment payout	\$ 134,151	80,415
Change in benefit plans funded status, excluding benefit cost	15,711	161,670
Loss on bond refinancing	—	(45,982)
Change in fair value on interest rate swap agreements	1,095	14,338
Other, net	15,472	6,987
Net assets released from restrictions	<u>8,085</u>	<u>29,874</u>
Change in unrestricted net assets from nonoperating activities	<u>174,514</u>	<u>247,302</u>
Total changes in unrestricted net assets	<u>244,749</u>	<u>342,505</u>
Changes in temporarily restricted net assets:		
Contributions	152,197	77,480
Investment return in excess of endowment payout	247,977	117,952
Net assets released from restrictions	<u>(95,565)</u>	<u>(118,355)</u>
Total changes in temporarily restricted net assets	<u>304,609</u>	<u>77,077</u>
Changes in permanently restricted net assets:		
Contributions	107,413	87,685
Investment return	<u>13,855</u>	<u>18,768</u>
Total changes in permanently restricted net assets	<u>121,268</u>	<u>106,453</u>
Total changes in net assets	670,626	526,035
Net assets at beginning of year	<u>4,878,809</u>	<u>4,352,774</u>
Net assets at end of year	<u>\$ 5,549,435</u>	<u>4,878,809</u>

See accompanying notes to consolidated financial statements.

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Changes in net assets	\$ 670,626	526,035
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation, amortization, and loss on asset disposals	203,226	193,720
Contributions restricted for long-term investment	(181,145)	(92,720)
Net realized and unrealized gains from investments	(483,407)	(328,999)
Net unrealized gains from swaps	(1,095)	(14,338)
Loss on bond refinancings	—	45,982
Change in benefit plans funded status	(19,501)	(163,292)
Changes in operating assets and liabilities:		
Sponsored research and accounts receivable, net	(12,685)	56,326
Contributions receivable, net	24,605	8,297
Prepaid expenses and deferred charges	(8,808)	(9,672)
Investments in and loans to affiliates	(25,740)	(18,030)
Other assets	2,575	(8,792)
Accounts payable and accrued expenses	(34,446)	(16,013)
Sponsored research and other deferred revenues and other long-term liabilities	5,943	14,536
Interests and liabilities related to trusts and split-interest agreements	11,231	11,596
Net cash provided by operating activities	<u>151,379</u>	<u>204,636</u>
Cash flows from investing activities:		
Purchases of investments	(2,709,124)	(2,453,248)
Proceeds from sales and maturities of investments	2,673,338	2,463,127
Purchases of property and equipment	(151,402)	(196,554)
Disbursements for student loans	(7,836)	(5,415)
Repayments of student loans	5,169	5,259
Advances from/(to) affiliates, net	2,195	(22,465)
Joint venture dividends, net of capital contributions	9,874	5,225
Change in endowments held for others	(17,238)	(16,929)
Net cash used in investing activities	<u>(195,024)</u>	<u>(221,000)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	168,283	106,066
Proceeds from borrowings	—	463,079
Payments on debt refinancings	—	(458,075)
Scheduled debt payments	(38,110)	(41,063)
Net cash provided by financing activities	<u>130,173</u>	<u>70,007</u>
Net increase in cash and cash equivalents	86,528	53,643
Cash and cash equivalents at beginning of year	<u>235,877</u>	<u>182,234</u>
Cash and cash equivalents at end of year	\$ <u><u>322,405</u></u>	<u><u>235,877</u></u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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 10% of the University's operating revenues in both fiscal 2014 and 2013. 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 1,900 government and private sponsors. Sponsored research revenues produced approximately 57% of the University's operating revenues in both fiscal 2014 and 2013. Approximately 88% of these revenues come from departments and agencies of the United States government in both fiscal 2014 and 2013. 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 clinical 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 12% and 11% of the University's operating revenues in fiscal 2014 and 2013, respectively. Services are predominantly provided to patients in 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 inter entity 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.

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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 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 2013 have been reclassified to conform to the presentation for fiscal 2014.

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 the date of purchase of 90 days or less are classified as cash equivalents, alternatively, the investments are classified as operating investments. Operating investments, which include 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.

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Investments purchased 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, or their equivalents (collectively, NAV) 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, 2014 and 2013, the University had no plans or intentions to sell investments at amounts different from NAV. The NAVs, 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.

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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 consolidated 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.

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Most investments classified in Level 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, some of which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate fair value, 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 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 ninety days of June 30, are classified as Level 3.

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, 2014 and 2013, 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. 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 \$61,510 and \$58,214 classified in investments and \$26,980 and \$29,383 classified in liabilities under split-interest agreements, respectively, as of June 30, 2014 and 2013.

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.

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(Dollars in thousands)

(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. Tuition and fees received in advance of services are recorded as other deferred revenues. 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. 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. Funds received from sponsors in advance of expenditures incurred are reported as sponsored research deferred revenues.

Approximately 75% and 80%, of receivables related to reimbursement of costs incurred under grants and contracts as of June 30, 2014 and 2013, 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.

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(Dollars in thousands)

(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 \$63,000 and \$58,920 as of June 30, 2014 and 2013, 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 \$29,923 and \$29,821 as of June 30, 2014 and 2013, 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.

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(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) Deferred Compensation Plan

The University maintains a deferred compensation plan for certain employees. As of June 30, 2014 and 2013, other investments, included in other assets on the consolidated balance sheets, represent investments held by the University under these deferred compensation agreements. Such amounts approximate the University's related liability to employees, which are included in other long-term liabilities.

(t) Statement of Cash Flows Supplemental Information

Property and equipment additions included in accounts payable and accrued expenses from affiliates as of June 30, 2014 and 2013 were \$8,834 and \$12,366, respectively. Property acquired through capital lease obligations were \$14,926 during fiscal 2014. Assets transferred from affiliates in fiscal 2013 aggregated \$13,088.

(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.

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The University works under an omnibus contract with the U.S. Navy. The most recent contract, which was signed in February 2013, provides for a five-year initial term ending in September 2017, plus a five-year renewal option, and establishes an aggregate purchase limit of \$4,900,000 over the ten-year contract period.

Approximately 78% and 15% of APL's revenues in both fiscal 2014 and 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, working capital, capital projects and reserves at the APL.

(3) Accounts Receivable

Accounts receivable, net are summarized as follows as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Affiliated institutions, primarily the Hospital (note 11)	\$ 21,617	25,343
Students	13,575	12,842
Others	<u>40,107</u>	<u>49,668</u>
Total net of allowances of \$15,289 in 2014 and \$5,782 in 2013	75,299	87,853
Receivables for clinical professional fees, net of contractual and bad debt allowances of \$116,921 in 2014 and \$112,455 in 2013	<u>62,528</u>	<u>55,822</u>
	<u>\$ 137,827</u>	<u>143,675</u>

The mix of gross accounts receivable for clinical professional fees from patients and third-party payors consisted of the following as of June 30, 2014 and 2013: commercial third parties 44% and 43%, respectively; Medicare 21% and 20%, respectively; Medicaid 12% and 8%, respectively; Blue Cross/Blue Shield 9% and 9%, respectively; and patients 14% and 20%, respectively.

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(4) Contributions Receivable

Contributions receivable, net, are summarized as follows as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unconditional promises scheduled to be collected in:		
Less than one year	\$ 80,691	75,282
One year to five years	122,278	141,993
Over five years	<u>3,613</u>	<u>1,611</u>
	206,582	218,886
Less unamortized discount (interest ranging from 0.7% to 5.1%) and allowances for uncollectible contributions	<u>16,154</u>	<u>16,716</u>
	<u>\$ 190,428</u>	<u>202,170</u>

As of June 30, 2014 and 2013, 38% and 44%, respectively, of the gross contributions receivable were due from ten donors. Approximately 55% and 39% of contribution revenues for fiscal 2014 and 2013, respectively, were from ten donors. As of June 30, 2014, the University had also been informed of bequest intentions and conditional promises to give aggregating in excess of \$600,000 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.

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Investments are summarized as follows as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Operating investments	\$ 883,872	825,581
Investments	4,311,815	3,787,627
	<u>\$ 5,195,687</u>	<u>4,613,208</u>
Cash and cash equivalents	\$ 471,432	158,891
United States government and agency obligations	909,927	822,437
Debt securities	271,306	305,225
United States equities	445,064	471,160
International equities	1,006,347	818,361
Private equity and venture capital	637,911	552,228
Real estate	372,469	411,503
Natural resources	379,737	328,527
Marketable alternatives	701,494	744,876
	<u>\$ 5,195,687</u>	<u>4,613,208</u>

The following table summarizes the University's investments as of June 30, 2014 and 2013 for which NAV was used as a practical expedient to estimate fair value:

	<u>Fair value determined using NAV</u>		<u>Unfunded commitments</u>		<u>Redemption frequency</u>	<u>Redemption notice period</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
International equities	\$ 829,002	686,866	—	—	89% Monthly 4% Quarterly 7% Annually	1 to 120 days
Private equity and venture capital	637,911	552,228	300,955	261,803	N/A	N/A
Real estate	247,836	212,200	172,855	149,081	N/A	N/A
Natural resources	379,737	328,527	103,144	135,311	N/A	N/A
Marketable alternatives	701,494	744,876	70,281	68,610	See chart below	14 to 180 days
	<u>\$ 2,795,980</u>	<u>2,524,697</u>	<u>647,235</u>	<u>614,805</u>		

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Marketable alternatives have the following redemption periods as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Quarterly redemptions	\$ 81,077	52,535
Annual redemptions	179,931	222,765
Quarterly or annual over 1 – to 3-year period	155,377	196,269
Rolling 3-year redemption	89,230	60,715
Drawdown funds over 10-year period	195,879	212,592
	<u>\$ 701,494</u>	<u>744,876</u>

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

International equities: This includes commingled funds that invest in publicly traded common stock of 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.

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Investment return is summarized as follows for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Dividend and interest income	\$ 96,893	56,296
Net realized and unrealized gains	477,626	324,516
External investment management fees and expenses	(33,576)	(22,245)
Change in value of interests in trusts and endowment funds held by others	5,781	4,483
	<u>\$ 546,724</u>	<u>363,050</u>

Investment return is classified in the statements of activities as follows for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Operating, including endowment payout	\$ 150,741	145,915
Nonoperating	134,151	80,415
Temporarily restricted net assets	247,977	117,952
Permanently restricted net assets	13,855	18,768
	<u>\$ 546,724</u>	<u>363,050</u>

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(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, 2014:

	Fair value as of June 30, 2014	Level 1	Level 2	Level 3
Assets:				
Operating investments:				
United States government and agency obligations	\$ 635,510	635,510	—	—
Debt securities	248,362	80,649	167,713	—
Total operating investments	883,872	716,159	167,713	—
Investments:				
Cash and cash equivalents	471,432	471,432	—	—
United States government and agency obligations	274,417	274,417	—	—
Debt securities	22,944	22,944	—	—
United States equities	445,064	445,064	—	—
International equities	1,006,347	177,344	773,594	55,409
Private equity and venture capital	637,911	—	—	637,911
Real estate	372,469	18,103	—	354,366
Natural resources	379,737	—	—	379,737
Marketable alternatives	701,494	—	81,077	620,417
Total investments	4,311,815	1,409,304	854,671	2,047,840
Other assets:				
Deferred compensation assets	95,217	95,217	—	—
Interests in trusts and endowment funds held by others	114,337	—	82,280	32,057
Total assets	\$ 5,405,241	2,220,680	1,104,664	2,079,897
Liabilities:				
Interest rate swaps	\$ 19,028	—	19,028	—
Obligations under deferred compensation agreements	94,399	—	94,399	—
Endowment and similar funds held for others	585,120	—	—	585,120
Total liabilities	\$ 698,547	—	113,427	585,120

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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	20,700	20,700	—	—
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
Total investments	3,787,627	1,079,580	692,746	2,015,301
Other assets:				
Deferred compensation assets	\$ 87,110	87,110	—	—
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

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The methods and assumptions used to estimate the fair value of assets are defined in note 1g. 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, 2014 and 2013:

	<u>International equities</u>	<u>Private equity and venture capital</u>	<u>Real estate</u>	<u>Natural resources</u>	<u>Marketable alternatives</u>	<u>Interests in trusts and endowments held by others</u>	<u>Endowment and similar funds held for others</u>
Assets:							
Balance as of June 30, 2012 \$	—	538,002	350,274	292,035	653,682	27,121	480,629
Transfers from Level 2 to Level 3	29,466	—	—	—	—	—	—
Dividend and interest income	—	11,102	5,143	6,021	3,208	—	—
Net realized and unrealized gains	7,189	67,920	37,371	4,295	104,288	1,286	55,923
Purchases and calls	10,000	67,725	47,022	44,893	70,463	—	53
Sales and distributions	—	(132,521)	(44,260)	(18,717)	(139,300)	—	(16,981)
Balance as of June 30, 2013	46,655	552,228	395,550	328,527	692,341	28,407	519,624
Transfers from Level 3 to Level 2	—	—	—	—	(57,796)	—	—
Dividend and interest income	—	7,768	5,063	34,351	23,100	—	—
Net realized and unrealized gains	8,754	146,450	27,970	18,561	66,405	3,650	82,734
Purchases and calls	—	75,434	46,686	50,194	43,938	—	2,256
Sales and distributions	—	(143,969)	(120,903)	(51,896)	(147,571)	—	(19,494)
Balance as of June 30, 2014 \$	<u>55,409</u>	<u>637,911</u>	<u>354,366</u>	<u>379,737</u>	<u>620,417</u>	<u>32,057</u>	<u>585,120</u>

For the years ended June 30, 2014 and 2013, the University did not have any transfers between fair value Levels 1 and 2. During 2014, transfers from Level 3 to Level 2 were the result of liquidity changes and the investments are redeemable within 90 days of June 30, 2014. 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.

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(7) Property and Equipment

Property and equipment, net, are summarized as follows as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Range of useful lives</u>
Land	\$ 76,294	76,324	N/A
Land improvements	92,424	86,339	15 years
Buildings and leasehold improvements	2,958,577	2,867,472	10–40 years
Equipment	811,369	781,407	7–15 years
Capitalized software costs	116,206	114,718	3–10 years
Library collections	269,429	254,856	25 years
Construction in progress	77,949	99,172	N/A
	<u>4,402,248</u>	<u>4,280,288</u>	
Less accumulated depreciation and amortization	<u>2,328,590</u>	<u>2,164,251</u>	
	<u>\$ 2,073,658</u>	<u>2,116,037</u>	

(8) Debt

Debt is summarized as follows as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Bonds payable	\$ 1,027,323	1,029,272
Notes payable	56,205	82,672
Commercial paper revenue notes – tax-exempt	186,706	245,565
Commercial paper revenue notes – taxable	76,287	28,628
Capital lease obligations (note 14)	64,506	51,807
	<u>\$ 1,411,027</u>	<u>1,437,944</u>

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(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, 2014 and 2013:

	2014	2013
Revenue Bonds Series 2005A, variable rate effective rate (0.04%) due July 2036	\$ 69,265	69,265
Revenue Bonds Series 2008A, 5.00% to 5.25%, due July 2038, including unamortized premium of \$4,502 in 2014 and \$4,739 in 2013	119,382	119,619
Taxable Bonds 2009 Series A, 5.25%, due July 2019, net of unamortized discount of \$66 in 2014 and \$80 in 2013	199,934	199,920
Revenue Bonds Series 2012A, 4.00% to 5.00%, due July 2041, including unamortized premium of \$22,960 in 2014 and \$24,239 in 2013	176,110	177,389
Taxable Bonds 2013 Series A, 4.08% due July 2053	355,000	355,000
Revenue Bonds Series 2013B, 4.25% to 5.00% due July 2041, including unamortized premium of \$8,007 in 2014 and \$8,454 in 2013	107,632	108,079
	\$ 1,027,323	1,029,272

The bonds payable outstanding as of June 30, 2014 and 2013 are unsecured general obligations of the University. The loan agreements generally provide for semiannual payments of interest. The Series 2005A bonds bear interest at a variable rate, which is reset on a weekly basis (0.04% at June 30, 2014 and 2013) and provide for monthly payments of interest. The Series 2008A bonds provide for a serial principal payment prior to maturity of \$30,000 in 2018.

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 term bond is subject to redemption prior to final maturity and provides 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

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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 2033 through 2041. The Series 2012A bonds are subject to redemption prior to final maturity. The bonds provide for annual principal payments of \$8,060 starting in 2023 through 2039 and annual principal payments of 8,065 in 2040 and 2041.

(b) Notes Payable

Notes payable consist of the following as of June 30, 2014 and 2013:

	2014	2013
MHHEFA note due September 2014	\$ 1,059	11,705
MHHEFA note due November 2020	8,478	9,489
MHHEFA note due February 2025	2,838	3,061
MHHEFA note due July 2026	4,509	4,703
Note due December 2019, 8.88%	38,758	43,504
Note due February 2014, 4.75%	—	7,553
Note due February 2044, 4.75%	—	1,878
Note due March 2017, 2.25%	563	779
	\$ 56,205	82,672

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 1.85% and 0.85% as of June 30, 2014 and 2013, respectively, in monthly installments.

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 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, 2014 bear interest at a weighted average rate of 0.09%.

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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 \$58,088 in 2014 and \$58,171 in 2013, of which \$2,374 in 2014 and \$3,595 in 2013 were capitalized. There was no interest income in 2014 or 2013 earned from the investment of the unexpended proceeds of certain tax-exempt borrowings.

(e) Debt Covenants

One of the University's debt agreements include covenants that require the University to maintain minimum ratios. The University was in compliance with its covenant requirements as of and for year ended June 30, 2014.

(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:

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
Fixed rate	\$ 1,061,885	1,100,000	1,065,528	1,055,000
Variable rate	349,142	349,000	372,416	372,000
	\$ 1,411,027	1,449,000	1,437,944	1,427,000

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(g) Other Credit Agreements

The University maintains standby liquidity and line of credit agreements with several commercial banks as follows:

	<u>Line of credit</u>	<u>Maturity</u>	<u>Purpose</u>
\$	100,000	April 2015	Revolving line of credit
	175,000	January 2016	Standby liquidity agreement
	100,000	January 2016	Standby liquidity agreement
	100,000	April 2017	Standby liquidity agreement
	200,000	July 2017	Lines of credit

To support liquidity requirements under the bond and commercial paper revenue notes programs with MHHEFA, the University has three standby liquidity agreements with commercial banks. 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 unless extended by a term loan. Effective in September 2014, the \$175,000 standby liquidity agreement was reduced to \$150,000 and the \$100,000 standby liquidity agreement maturing April 2017 was reduced to \$80,000. There were no borrowings under any of the University's credit facilities during fiscal 2014 and 2013.

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. There were no borrowings outstanding on the line of credit as of June 30, 2014 or 2013.

(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.

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

<u>Effective date</u>	<u>Notional amount</u>	<u>Termination date</u>	<u>Interest rate paid</u>	<u>Interest rate received</u>
June 2005	\$ 69,265	July 2036	3.87%	SIFMA 0.06% as of June 30, 2014
July 2007	10,030	July 2027	3.45	67.0% of 1-month LIBOR 0.10% as of June 30, 2014
July 2008	85,420	July 2020	3.43	67.0% of 1-month LIBOR 0.10% as of June 30, 2014

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, 2014 and 2013 was a liability of \$19,028 and \$20,123, respectively, excluding accrued interest and is reported as other long term 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 \$1,095 in fiscal 2014 and a gain of approximately \$14,338, net of the swap termination fee, in fiscal 2013, respectively.

The University is required to post collateral under these agreements under certain events. As of June 30, 2013, \$8,000 was held by the counterparty and was included in cash and cash equivalents. There was no required collateral as of June 30, 2014.

(i) Annual Principal Payments

The following table summarizes the aggregate annual maturities of bonds payable, notes payable, and the maturities of specific tax-exempt commercial paper revenue note tranches, for the five years subsequent to June 30, 2014:

	<u>Bonds payable</u>	<u>Notes payable</u>	<u>Commercial paper notes</u>	<u>Total</u>
2015	\$ —	7,980	597	8,577
2016	—	7,495	14,006	21,501
2017	—	7,947	12,551	20,498
2018	30,000	8,481	35,765	74,246
2019	200,000	9,204	—	209,204

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(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2014 and 2013:

	2014	2013
Contributions restricted for departments and divisions	\$ 328,470	315,411
Endowment return restricted for departments, divisions, and student aid	839,200	592,065
Contributions restricted for facilities	103,647	61,924
Split-interest agreements designated for departmental and divisional support	36,524	31,832
Land subject to time and purpose restrictions	72,000	74,000
	\$ 1,379,841	1,075,232

Permanently restricted net assets consist of the following as of June 30, 2014 and 2013:

	2014	2013
Contributions restricted for departments and divisions	\$ 57,858	59,718
Donor restricted endowment funds	1,513,107	1,402,323
Perpetual trusts	59,337	55,566
Contributions receivable	52,442	43,869
	\$ 1,682,744	1,561,476

Income is available from these net assets for departmental and divisional support and student aid (\$1,376,311 in 2014 and \$1,269,657 in 2013) and (\$306,433 in 2014 and \$291,819 in 2013).

(10) University Endowment

The University's endowment consists of approximately 3,600 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

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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.

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, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (8)	839,200	1,513,107	2,352,299
Board-designated endowment funds	<u>1,040,230</u>	<u>—</u>	<u>—</u>	<u>1,040,230</u>
	<u>\$ 1,040,222</u>	<u>839,200</u>	<u>1,513,107</u>	<u>3,392,529</u>

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

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

Changes in endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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
Investment return	170,023	316,282	1,566	487,871
Contributions and designations	3,681	9,905	107,660	121,246
Appropriation for expenditure	(57,640)	(77,494)	—	(135,134)
Appropriation reinvested	—	(1,558)	1,558	—
Endowment net assets, June 30, 2014	<u>\$ 1,040,222</u>	<u>839,200</u>	<u>1,513,107</u>	<u>3,392,529</u>

(11) Affiliated Institutions

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Johns Hopkins Health System	\$ 26,550	26,070
Johns Hopkins Hospital	252,587	248,029
Johns Hopkins Bayview Medical Center	65,476	63,261
Other Johns Hopkins entities	70,082	59,055
Other affiliated medical institutions	32,983	37,902
	<u>\$ 447,678</u>	<u>434,317</u>

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(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 2014, the University contributed \$5,000 to JHHS to support certain JHHS initiatives, including but not limited to JHHS facility renovation and construction, which are reported as operating expenses in the statements of activities. In fiscal 2013, the University contributed \$5,000 solely to support JHHS construction activities, which are reported as nonoperating expenses 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 \$185,625 in fiscal 2014 and \$181,011 in fiscal 2013. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated \$45,187 in fiscal 2014 and \$43,604 in fiscal 2013, 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 \$61,327 in fiscal 2014 and \$57,738 in fiscal 2013.

(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

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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 \$469,026 and \$414,782 is included in endowment and similar funds held for others as of June 30, 2014 and 2013, respectively.

(e) Jointly Owned Entities

As of June 30, 2014 and 2013, 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 \$202,169 and \$188,268 as of June 30, 2014 and 2013, respectively. Equity in earnings of affiliates aggregated approximately \$25,740 in fiscal 2014 and \$18,320 in fiscal 2013.

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 2014 and 2013 were approximately \$38,060 and \$36,839, respectively. JHMI Utilities LLC entered into an agreement with the University to finance a portion of the costs of installation of an enterprise information technology system that will provide integrated patient care information and service across Johns Hopkins Medicine. The initial phases of the project have been implemented at a projected cost of approximately \$135,600. The total approved capital cost of the overall project inclusive of phases that are currently just starting is \$287,200. The cost of implementing the enterprise information technology strategy will be financed through a combination of loans from the University and JHHS. The University has committed to funding up to \$49,000 of the project. As of June 30, 2014 and 2013, \$16,900 and \$16,400, respectively, was outstanding on the loan.

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.

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, 2014 and 2013, respectively:

	2014		2013	
	Total	University interest	Total	University interest
Assets	\$ 853,371	382,402	767,542	341,258
Liabilities	616,474	284,015	571,312	259,227
Operating revenues	1,839,930	734,049	1,694,688	670,840
Operating expenses	1,736,951	708,309	1,617,404	652,520

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(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 \$195,455 in fiscal 2014 and \$205,443 in fiscal 2013, including \$169,475 and \$165,311, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for \$56,378 in fiscal 2014 and \$54,076 in fiscal 2013.

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 its 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 loss in 2014 is primarily related to the 40-basis point decrease in the discount rate and other assumption changes, including future salary increases and estimated healthcare costs. 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.

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.

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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, 2014 and 2013 is summarized as follows:

	Pension plan		Postretirement plans	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 556,960	589,267	236,522	270,010
Service cost	16,622	22,341	8,019	10,226
Interest cost	25,306	23,922	10,595	10,009
Participant contributions	—	—	9,225	8,039
Actuarial (gain) loss	40,671	(65,089)	10,826	(44,989)
Benefits paid	(15,250)	(13,481)	(19,720)	(18,422)
Medicare subsidies received	—	—	1,389	1,649
	<u>624,309</u>	<u>556,960</u>	<u>256,856</u>	<u>236,522</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	395,728	328,446	234,799	204,584
Actual return on plan assets	62,991	40,631	37,690	28,622
University contributions	25,682	40,132	5,175	10,329
Participant contributions	—	—	9,225	8,039
Benefits paid	(15,250)	(13,481)	(19,720)	(18,422)
Medicare subsidies received	—	—	1,391	1,647
	<u>469,151</u>	<u>395,728</u>	<u>268,560</u>	<u>234,799</u>
Fair value of plan assets at end of year	<u>469,151</u>	<u>395,728</u>	<u>268,560</u>	<u>234,799</u>
Funded status recognized as other long-term liabilities, net	<u>\$ (155,158)</u>	<u>(161,232)</u>	<u>11,704</u>	<u>(1,723)</u>

The accumulated benefit obligation for the pension plan was \$600,019 as of June 30, 2014 and \$534,166 as of June 30, 2013.

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The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2014 and 2013:

	Pension plan		Postretirement plans	
	2014	2013	2014	2013
Net loss (gain) loss for the year	\$ 4,293	(82,817)	(10,106)	(58,962)
Amortization of net transition obligation	—	—	—	(1,508)
Amortization of prior service cost	167	167	1,736	1,736
Amortization of net loss	(10,531)	(16,939)	(1,270)	(3,347)
Net (gain) recognized in nonoperating activities	\$ (6,071)	(99,589)	(9,640)	(62,081)

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2015:

	Pension plan	Postretirement plans
Net loss	\$ (8,916)	(904)
Prior service cost	167	1,736
	\$ (8,749)	832

The net pension and postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2014 and 2013:

	Pension plan		Postretirement plan	
	2014	2013	2014	2013
Service cost	\$ 16,622	22,341	8,019	10,226
Interest cost on accumulated benefit obligation	25,306	23,922	10,595	10,009
Amortization of prior service cost	(167)	(167)	(1,736)	(1,736)
Expected return on plan assets	(26,612)	(22,903)	(16,759)	(14,649)
Amortization of actuarial loss	10,531	16,939	1,270	3,347
Amortization of transition obligation	—	—	—	1,508
	\$ 25,680	40,132	1,389	8,705

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

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	4.20%	4.60%	4.20%	4.60%
Average rate of compensation increase	2.90	2.90	N/A	N/A
Rate of increase in healthcare costs for next year	N/A	N/A	7.20	7.30
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	4.60%	4.10%	4.60%	4.10%
Expected rate of return on plan assets	6.75	6.75	7.25	7.25
Rate of compensation increase	2.90	2.90	N/A	N/A
Rate of increase in healthcare costs	N/A	N/A	7.30	7.40

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.

The rate of increase in healthcare costs was assumed to begin with an initial rate of 7.3% in 2014 and 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, 2014 would have the following effects:

	<u>Increase</u>	<u>Decrease</u>
Total service and interest cost components	\$ 499	(450)
Postretirement benefit obligation	9,333	(8,235)

(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).

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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.

(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, and the University's target asset allocations, as of June 30, 2014 and 2013:

	Target allocation	2014			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	—%	\$ 6,914	6,914	—	—
Fixed income securities	30	85,849	—	85,849	—
United States equities and international equities	50	306,117	151,964	154,153	—
Real estate	15	14,274	—	14,274	—
Marketable alternatives	5	55,997	—	—	55,997
Total	100%	\$ 469,151	158,878	254,276	55,997

	Target allocation	2013			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	—%	\$ 55	55	—	—
Fixed income securities	—	81,068	—	81,068	—
United States equities and international equities	30	256,532	115,243	141,289	—
Real estate	15	12,699	—	12,699	—
Marketable alternatives	5	45,374	—	—	45,374
Total	100%	\$ 395,728	115,298	235,056	45,374

Defined benefit plan investments that are determined using NAV per share as a practical expedient for estimated fair value aggregated \$310,273 and \$280,430 as of June 30, 2014 and 2013, 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, 2014 and 2013.

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The following table presents the activity for the University's pension plan Level 3 investments for the years ended June 30, 2014 and 2013:

		Marketable alternatives
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
Net realized and unrealized gains		5,400
Purchases/calls/sales		5,223
Balance as of June 30, 2014	\$	55,997

(c) Postretirement Plans

The following tables present the fair value and categorization within the fair value hierarchy of the assets of the postretirement plans and the University's target asset allocation, as of June 30, 2014 and 2013:

	Target allocation	2014			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	—%	\$ 7,804	7,804	—	—
Fixed income securities	35	69,830	3,454	66,376	—
United States equities and international equities	65	171,016	82,244	88,772	—
Marketable alternatives	—	19,910	—	—	19,910
Total	100%	\$ 268,560	93,502	155,148	19,910

	Target allocation	2013			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	—%	\$ 3,601	3,601	—	—
Fixed income securities	35	62,184	3,523	58,661	—
United States equities and international equities	65	151,063	73,873	77,190	—
Marketable alternatives	—	17,951	—	—	17,951
Total	100%	\$ 234,799	80,997	135,851	17,951

Postretirement plans' investments that are determined using NAV per share as a practical expedient for estimated fair value aggregated \$175,058 and \$153,802 as of June 30, 2014 and 2013, respectively. These investments are classified in the fair value hierarchy as Level 2 or 3 in a manner

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consistent with the methodology described in note 1(g). The Plans have no unfunded commitments to fund managers as of June 30, 2014 and 2013. The change in Level 3 marketable alternatives relates primarily to realized and unrealized gains.

(d) Cash Flows

The University expects to contribute \$3,998 to its postretirement benefit plans in 2015 and \$20,225 to the pension plan in 2015.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2014 and in aggregate for the five years thereafter are as follows:

	Pension plan	Postretirement plans	Medicare subsidies
2015	\$ 19,958	12,683	1,909
2016	21,127	13,209	2,119
2017	22,608	13,832	2,357
2018	24,273	14,608	1,872
2019	25,848	15,279	1,955
2020–2024	155,387	87,148	6,208

(13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Instruction, research, and clinical practice:		
Academic and support divisions	\$ 3,043,594	2,946,746
APL contracts	1,163,026	1,082,668
Student services	98,776	94,903
Libraries	44,642	43,739
General services and administration	444,984	426,333
Auxiliary enterprises	106,305	104,192
	\$ 4,901,327	4,698,581

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, 2015.

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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, 2014:

	<u>Affiliates</u>	<u>Others</u>	<u>Total</u>
2015	\$ 11,483	30,811	42,294
2016	10,190	28,589	38,779
2017	8,232	24,847	33,079
2018	7,829	21,189	29,018
2019	7,315	16,729	24,044
After 2019	<u>31,440</u>	<u>28,634</u>	<u>60,074</u>
	\$ <u>76,489</u>	<u>150,799</u>	<u>227,288</u>

Rental expense for the long-term operating leases was \$44,968 in fiscal year 2014 and \$40,844 in fiscal year 2013.

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, 2014:

2015	\$ 7,222
2016	7,433
2017	7,650
2018	7,873
2019	8,103
After 2019	<u>63,710</u>
Minimum lease payments	101,991
Less imputed interest (at rates from 4.03% to 8.41%)	<u>37,485</u>
Present value of minimum lease payments	\$ <u>64,506</u>

As of June 30, 2014, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to \$75,646 and \$25,522, respectively.

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(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, 2014, the University's guarantee amounted to \$18,542 and the Hospital's guarantee amounted to \$12,852. The University's guarantees continue until maturity of the loans in 2017.

(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 material adverse 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.

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Specific Matters

On September 20, 2013, counsel for prospective plaintiffs asserted claims against the University, including the Johns Hopkins Bloomberg School of Public Health and School of Medicine, as well as JHHS, the Hospital, and another third party institution, arising from human experiments conducted in Guatemala between 1945 and 1955. The plaintiffs' counsel provided the University 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. The parties executed a tolling agreement extending to November 10, 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, 2014, which is the date the financial statements were issued and there were no matters that required adjustment to or disclosure in the consolidated financial statements.