THE JOHNS HOPKINS UNIVERSITY

Consolidated Financial Statements

June 30, 2015 and 2014

(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, 2015 and 2014, 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, 2015 and 2014, 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 8, 2015

THE JOHNS HOPKINS UNIVERSITY

Consolidated Balance Sheets

June 30, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Cash and cash equivalents	$	343,562	322,405
Operating investments		1,001,608	883,872
Cash, cash equivalents and operating investments		1,345,170	1,206,277
Sponsored research accounts receivable, net		367,118	340,445
Accounts receivable, net		156,854	137,827
Contributions receivable, net		239,496	190,428
Prepaid expenses and deferred charges		49,697	50,207
Student loans receivable, net		37,072	35,932
Investments		4,224,081	4,311,815
Property and equipment, net		2,061,263	2,073,658
Investment in and loans to affiliates		233,949	208,231
Other assets		192,378	204,611
Interests in trusts and endowment funds held by others		113,877	114,337
Total assets	$	9,020,955	8,873,768
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	504,466	449,054
Sponsored research deferred revenues		283,848	279,600
Other deferred revenues		121,897	112,490
Debt		1,388,949	1,405,340
Other long-term liabilities		277,757	280,566
Pension and postretirement obligations		185,453	143,454
Liabilities under split-interest agreements		82,961	68,709
Endowment and similar funds held for others		560,334	585,120
Total liabilities		3,405,665	3,324,333
Net assets:			
Unrestricted		2,504,312	2,486,850
Temporarily restricted		1,250,392	1,379,841
Permanently restricted		1,860,586	1,682,744
Total net assets		5,615,290	5,549,435
Total liabilities and net assets	$	9,020,955	8,873,768

See accompanying notes to consolidated financial statements.

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Activities

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Changes in unrestricted net assets from operating activities:			
Operating revenues:			
Tuition and fees	$	802,769	757,427
Less financial aid		(273,676)	(264,501)
Tuition and fees, net of financial aid		529,093	492,926
Grants, contracts, and similar agreements		1,279,280	1,309,244
Facilities and administrative cost recoveries		306,051	305,007
Applied Physics Laboratory contract revenues		1,308,048	1,223,996
Sponsored research revenues		2,893,379	2,838,247
Contributions		127,770	109,917
Net assets released from restrictions		83,313	87,480
Contributions and donor support		211,083	197,397
Clinical services		621,474	578,041
Reimbursements from affiliated institutions		483,545	447,678
Other revenues		149,750	152,184
Endowment payout used to support operations		151,021	135,134
Auxiliary enterprises		97,712	96,657
Maryland State aid		18,117	17,691
Investment return		17,083	15,607
Total operating revenues		5,172,257	4,971,562
Operating expenses:			
Compensation		2,270,150	2,166,147
Benefits		715,748	679,359
Compensation and benefits		2,985,898	2,845,506
Subcontractors and subrecipients		513,032	514,772
Contractual services		612,525	593,572
Supplies, materials, and other		592,538	565,417
Depreciation and amortization		207,950	201,234
Travel		125,870	126,370
Interest		53,555	54,456
Total operating expenses		5,091,368	4,901,327
Excess of operating revenues over operating expenses		80,889	70,235

(Continued)

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Activities

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Changes in unrestricted net assets from nonoperating activities:			
Investment return (less than) in excess of endowment payout	$	(47,513)	134,151
Change in benefit plans funded status, excluding benefit cost		(47,353)	15,711
Loss on bond refinancing		(21,163)	—
Change in fair value on interest rate swap agreements		(3,821)	1,095
Other, net		11,664	15,472
Net assets released from restrictions		44,759	8,085
Change in unrestricted net assets from nonoperating activities		(63,427)	174,514
Total changes in unrestricted net assets		17,462	244,749
Changes in temporarily restricted net assets:			
Contributions		102,018	152,197
Investment return (less than) in excess of endowment payout		(103,395)	247,977
Net assets released from restrictions		(128,072)	(95,565)
Total changes in temporarily restricted net assets		(129,449)	304,609
Changes in permanently restricted net assets:			
Contributions		174,246	107,413
Investment return		3,596	13,855
Total changes in permanently restricted net assets		177,842	121,268
Total changes in net assets		65,855	670,626
Net assets at beginning of year		5,549,435	4,878,809
Net assets at end of year	$	5,615,290	5,549,435

See accompanying notes to consolidated financial statements.

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Changes in net assets	$	65,855	670,626
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation, amortization, and loss on asset disposals		208,055	203,226
Contributions and grants restricted for long-term investment		(217,132)	(181,145)
Net realized and unrealized losses (gains) from investments		24,203	(483,407)
Net unrealized losses (gains) from swaps		3,821	(1,095)
Loss on bond refinancings		21,163	—
Change in benefit plans funded status		41,999	(19,501)
Changes in operating assets and liabilities:			
Sponsored research and accounts receivable, net		(45,701)	(12,685)
Contributions receivable, net		351	24,605
Prepaid expenses and deferred charges		153	(8,808)
Investments in and loans to affiliates		(34,721)	(25,740)
Other assets		11,125	2,575
Accounts payable and accrued expenses		47,663	(34,446)
Sponsored research and other deferred revenues and other long-term liabilities		8,134	5,943
Interests and liabilities related to trusts and split-interest agreements		18,245	11,231
Net cash provided by operating activities		153,213	151,379
Cash flows from investing activities:			
Purchases of investments		(2,282,569)	(2,709,124)
Proceeds from sales and maturities of investments		2,224,384	2,673,338
Purchases of property and equipment		(189,182)	(151,402)
Disbursements for student loans		(7,166)	(7,836)
Repayments of student loans		6,027	5,169
Repayments from affiliates, net		800	2,195
Joint venture dividends, net of capital contributions		8,203	9,874
Change in endowments held for others		(24,339)	(17,238)
Net cash used in investing activities		(263,842)	(195,024)
Cash flows from financing activities:			
Contributions and grants restricted for long-term investment		167,712	168,283
Proceeds from borrowings, net		164,075	—
Payments on debt refinancings		(188,579)	—
Scheduled debt payments		(11,422)	(38,110)
Net cash provided by financing activities		131,786	130,173
Net increase in cash and cash equivalents		21,157	86,528
Cash and cash equivalents at beginning of year		322,405	235,877
Cash and cash equivalents at end of year	$	343,562	322,405

See accompanying notes to consolidated financial statements.

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

(a) General

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

Education and related services (e.g., room, board, etc.) are provided to approximately 22,000 students, including 14,000 full-time students and 8,000 part-time students, and produced approximately 10% of the University's operating revenues in fiscal years 2015 and 2014. 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 2,000 government and private sponsors. Sponsored research revenues produced approximately 56% and 57% of the University's operating revenues in fiscal years 2015 and 2014, respectively. Approximately 88% of these revenues come from departments and agencies of the United States government in both fiscal 2015 and 2014. 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% of the University's operating revenues in both fiscal 2015 and 2014. 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.

The preparation of consolidated 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, and the actuarial assumptions used to determine obligations under defined benefit pension and postretirement plans.

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 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.

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. Amortization of the discount is included in contributions revenue. 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.

(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, 2015 and 2014, 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 consolidated financial statements. Liquidity risk represents the possibility that the University may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the University was forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

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

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

(f) 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.

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, 2015 and 2014, 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.

(g) 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 $63,066 and $61,510 classified in investments and $37,605 and $26,980 classified in liabilities under split-interest agreements, respectively, as of June 30, 2015 and 2014.

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.

(h) 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 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.

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.

(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.

(Continued)

(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% of receivables related to reimbursement of costs incurred under grants and contracts as of June 30, 2015 and 2014, 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 consolidated balance sheets as endowment and similar funds held for others.

(m) Auxiliary Enterprises

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

(n) Insurance

The University, together with other institutions, has formed captive insurance companies that arrange and provide professional liability, general liability, and property damage insurance for their shareholders. Defined portions of claims paid by these companies are self-insured. The University's claims liabilities are recognized as claims are incurred using actuarial studies based upon historical claims data, cost trends, and other actuarial estimates. Insurance expenses are recognized as operating expenses as incurred. In addition, the University is self-insured for certain other risks, primarily health and workers' compensation. Professional insurance liabilities associated with providing clinical services are reflected as gross claims on the consolidated balance sheets. In addition, medical malpractice insurance recoveries are also reported on the consolidated balance sheets as other assets. Accrued self-insurance liabilities aggregated $69,188 and $63,000 as of June 30, 2015 and 2014, 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 $29,927 and $29,923 as of June 30, 2015 and 2014, respectively.

(p) Income Taxes

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

(q) Leases

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

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

(r) Derivative Financial Instruments

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

(s) Deferred Compensation Plan

The University maintains a deferred compensation plan for certain employees. As of June 30, 2015 and 2014, 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 as of June 30, 2015 and 2014 were $16,582 and $8,834, respectively. The University acquired property through capital lease obligations of $14,926 during fiscal 2014.

(u) Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Boards (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force)*, which eliminates the requirement to classify investments in the fair value hierarchy if their fair value is measured at NAV using the practical expedient. The University adopted ASU No. 2015-07 in fiscal 2015 and modified the fair value disclosures as of June 30, 2014 to conform to the current year presentation (See note 6).

In April 2015, the FASB issued ASU No. 2015 – 03, *Simplifying the Presentation of Debt Issuance Costs* which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The University adopted ASU No. 2015-03 in fiscal 2015 and modified the June 30, 2014 presentation to conform to the current year presentation (See note 8).

(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 operates as a division of the University.

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

(Dollars in thousands)

The University works under an omnibus contract with the U.S. Navy. The most recent contract, 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 76% and 16% of APL's revenues in fiscal 2015 were from the Department of Defense (primarily under the Navy Contract) and the National Aeronautics and Space Administration, respectively. In fiscal 2014, those percentages were 78% and 15%, 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, 2015 and 2014:

		2015	2014
Affiliated institutions, primarily the Hospital (note 11)	$	31,829	21,617
Students		15,747	13,575
Others		39,983	40,107
Total net, of allowances of $14,902 in 2015 and $15,289 in 2014		87,559	75,299
Receivables for clinical professional fees, net of contractual and bad debt allowances of $126,027 in 2015 and $116,921 in 2014		69,295	62,528
	$	156,854	137,827

The mix of gross accounts receivable for clinical professional fees from patients and third-party payors consisted of the following as of June 30, 2015 and 2014: commercial third parties 45% and 44%, respectively; Medicare 19% and 21%, respectively; Medicaid 13% and 12%, respectively; Blue Cross/Blue Shield 9% and 9%, respectively; and patients 14% and 14%, respectively.

(Dollars in thousands)

(4) Contributions Receivable

Contributions receivable, net, are summarized as follows as of June 30, 2015 and 2014:

		2015	2014
Unconditional promises scheduled to be collected in:			
Less than one year	$	79,098	80,691
One year to five years		169,460	122,278
Over five years		10,304	3,613
		258,862	206,582
Less unamortized discount (interest ranging from 0.7% to 5.1%) and allowances for uncollectible contributions		19,366	16,154
	$	239,496	190,428

As of June 30, 2015 and 2014, 39% and 38%, respectively, of the gross contributions receivable were due from ten donors. Approximately 46% and 55% of contribution revenues for fiscal 2015 and 2014, respectively, were from ten donors. As of June 30, 2015, 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.

(Dollars in thousands)

Investments are summarized as follows as of June 30, 2015 and 2014:

		2015	2014
Operating investments	$	1,001,608	883,872
Investments		4,224,081	4,311,815
	$	5,225,689	5,195,687
Cash and cash equivalents	$	508,428	471,432
United States government and agency obligations		995,780	909,927
Debt securities		298,684	271,306
United States equities		430,313	445,064
International equities		957,491	1,006,347
Private equity and venture capital		602,423	637,911
Real estate		374,051	372,469
Natural resources		299,547	379,737
Marketable alternatives		758,972	701,494
	$	5,225,689	5,195,687

The following table summarizes the University's investments as of June 30, 2015 and 2014 for which NAV was used as a practical expedient to estimate fair value:

		Fair value determined using NAV		Unfunded commitments		Redemption frequency	Redemption notice period
		2015	2014	2015	2014	2015	2015
International equities	$	886,909	829,002	—	—	82% Monthly 13% Quarterly 5% Annually	1 to 120 days
Private equity and venture capital		602,423	637,911	425,836	300,955	N/A	N/A
Real estate		228,312	229,733	238,129	172,855	N/A	N/A
Natural resources		292,527	379,737	122,976	103,144	N/A	N/A
Marketable alternatives		758,972	701,494	92,272	70,281	See chart below	14 to 180 days (1)
	$	2,769,143	2,777,877	879,213	647,235		

(1) Investments that are not redeemable total $178, 951

(Dollars in thousands)

Marketable alternatives have the following redemption periods as of June 30, 2015 and 2014:

		2015	2014
Quarterly redemptions	$	36,756	81,077
Annual redemptions		213,774	179,931
Quarterly or annual over 1- to 3-year period		207,678	155,377
Rolling 3- to 5-year redemption		121,813	89,230
Drawdown funds over 10-year period		178,951	195,879
	$	758,972	701,494

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.

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.

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.

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

(Dollars in thousands)

Investment return is summarized as follows for the years ended June 30, 2015 and 2014:

		2015	2014
Dividend and interest income	$	74,542	96,893
Net realized and unrealized gains (losses)		(25,666)	477,626
External investment management fees and expenses		(29,547)	(33,576)
Change in value of interests in trusts and endowment funds held by others		1,463	5,781
	$	20,792	546,724

Investment return is classified in the consolidated statements of activities as follows for the years ended June 30, 2015 and 2014:

		2015	2014
Unrestricted net assets:			
Operating, including endowment payout	$	168,104	150,741
Nonoperating		(47,513)	134,151
Temporarily restricted net assets		(103,395)	247,977
Permanently restricted net assets		3,596	13,855
	$	20,792	546,724

(Continued)

(Dollars in thousands)

(6) Fair Value Measurements

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2015:

	Fair value as of June 30, 2015	Level 1	Level 2	Level 3	Funds at NAV(1)
Assets:					
Operating investments:					
United States government and agency obligations	$ 726,668	726,668	—	—	—
Debt securities	274,940	90,804	184,136	—	—
Total operating investments	1,001,608	817,472	184,136	—	—
Investments, at fair value:					
Cash and cash equivalents	508,428	508,428	—	—	—
United States government and agency obligations	269,112	269,112	—	—	—
Debt securities	23,744	23,744	—	—	—
United States equities	430,313	430,313	—	—	—
International equities	957,491	70,582	—	—	886,909
Private equity and venture capital	602,423	—	—	—	602,423
Marketable alternatives	758,972	—	—	—	758,972
Real estate	374,051	17,260	—	128,479	228,312
Natural resources	299,547	7,020	—	—	292,527
Total investments	4,224,081	1,326,459	—	128,479	2,769,143
Other assets:					
Deferred compensation assets	93,721	93,721	—	—	—
Interests in trusts and endowment funds held by others	113,877	—	—	113,877	—
Total assets	$ 5,433,287	2,237,652	184,136	242,356	2,769,143
Liabilities:					
Interest rate swaps	$ 22,849	—	22,849	—	—
Obligations under deferred compensation agreements	92,719	—	92,719	—	—
Endowment and similar funds held for others	560,334	—	—	560,334	—
Total liabilities	$ 675,902	—	115,568	560,334	—

(1) Investments which are measured at fair value using NAV as a practical expedient and are not classified within the fair value hierarchy. The fair value amounts permit reconciliation of investments in the fair value

(Dollars in thousands)

hierarchy table to amounts presented in the consolidated balance sheets. These investments are described more in detail in note 5.

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	Funds at NAV
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, at fair value:					
Cash and cash equivalents	471,433	471,433	—	—	—
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	1,006,346	177,344	—	—	829,002
Private equity and venture capital	637,911	—	—	—	637,911
Marketable alternatives	701,494	—	—	—	701,494
Real estate	372,469	18,103	—	124,633	229,733
Natural resources	379,737	—	—	—	379,737
Total investments	4,311,815	1,409,305	—	124,633	2,777,877
Other assets:					
Deferred compensation assets	95,217	95,217	—	—	—
Interests in trusts and endowment funds held by others	114,337	—	—	114,337	—
Total assets	$ 5,405,241	2,220,681	167,713	238,970	2,777,877
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	—

(Dollars in thousands)

The methods and assumptions used to estimate the fair value of investment are defined in note 1f. The methods and assumptions used to estimate the fair value of interest rate swap liabilities are defined in note 8g. 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. These assets are comprised of mutual funds and US equities securities. 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 table presents the University's activity for Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2015 and 2014:

		Real estate	Interests in trusts and endowments held by others	Endowment and similar funds held for others
Assets:				
Balance as of June 30, 2013	$	124,936	105,501	519,624
Dividend and interest income		70	—	—
Net realized and unrealized gains		(373)	8,836	82,734
Purchases and calls		—	—	2,256
Sales and distributions		—	—	(19,494)
Balance as of June 30, 2014		124,633	114,337	585,120
Net realized and unrealized gains		3,846	(460)	(3,559)
Sales and distributions		—	—	(21,227)
Balance as of June 30, 2015	$	128,479	113,877	560,334

For the years ended June 30, 2015 and 2014, the University did not have any transfers between fair value Levels.

(Dollars in thousands)

(7) Property and Equipment

Property and equipment, net, are summarized as follows as of June 30, 2015 and 2014:

		2015	2014	Range of useful lives
Land	$	101,722	76,294	N/A
Land improvements		98,430	92,424	15 years
Buildings and leasehold improvements		3,027,893	2,958,577	10–40 years
Equipment		865,522	811,369	7–15 years
Capitalized software costs		119,737	116,206	3–10 years
Library collections		284,006	269,429	25 years
Construction in progress		82,690	77,949	N/A
		4,580,000	4,402,248	
Less accumulated depreciation and amortization		2,518,737	2,328,590	
	$	2,061,263	2,073,658	

(8) Debt

Debt is summarized as follows as of June 30, 2015 and 2014:

		2015	2014
Bonds payable	$	1,034,440	1,021,636
Notes payable		48,225	56,205
Commercial paper revenue notes – tax-exempt		168,336	186,706
Commercial paper revenue notes – taxable		76,287	76,287
Capital lease obligations (note 14)		61,661	64,506
	$	1,388,949	1,405,340

(Dollars in thousands)

(a) Bonds Payable

Bonds payable were issued by the Maryland Health and Higher Educational Facilities Authority (MHHEFA), except for the Taxable Bonds issued directly, and consist of the following as of June 30, 2015 and 2014:

		2015	2014
Revenue Bonds Series 2005A, variable effective rate (0.04%), due July 2036	$	69,265	69,265
Revenue Bonds Series 2008A, 5.00% to 5.25%, due July 2038		114,880	114,880
Taxable Bonds 2009 Series A, 5.25%, due July 2019		50,000	200,000
Revenue Bonds Series 2012A, 4.00% to 5.00%, due July 2041		153,150	153,150
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		99,625	99,625
Taxable Bonds 2015 Series A, 1.48% & 3.75%, due July 2045		165,000	—
Subtotal		1,006,920	991,920
Premium and discount, net		33,507	35,403
Debt issuance cost, net		(5,987)	(5,687)
	$	1,034,440	1,021,636

The bonds payable outstanding as of June 30, 2015 and 2014 are unsecured general obligations of the University. The loan agreements generally provide for semiannual payments of interest.

In February 2015, the University issued $165,000 of 2015 Series A fixed rate bonds. The 2015 Series A bonds are subject to redemption prior to final maturity. The bonds provide for a $15,000 principal payment in 2018 and annual payments of $50,000 in 2043 through 2045. Proceeds from the 2015 Series A were used to refund $150,000 of the 2009 Series A bonds and a portion of the redemption premium payment. As a result of this refunding, the University recognized a loss of $21,163 in fiscal 2015, which includes a redemption premium payment of $20,763 and the remaining for the write-off of unamortized bond issuance costs and original issue discounts associated with the 2009 Series A bonds.

(Dollars in thousands)

(b) Notes Payable

Notes payable consist of the following as of June 30, 2015 and 2014:

	2015	2014
MHHEFA note due September 2014	$ —	1,059
MHHEFA note due November 2020	7,393	8,478
MHHEFA note due February 2025	2,599	2,838
MHHEFA note due July 2026	4,301	4,509
Note due December 2019, 8.88%	33,591	38,758
Note due March 2017, 2.25%	341	563
	$ 48,225	56,205

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 1.88% and 1.85% as of June 30, 2015 and 2014, 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, 2015 bear interest at a weighted average rate of 0.08%.

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 $55,718 in 2015 and $58,088 in 2014, of which $1,180 in 2015 and $2,374 in 2014 were capitalized. There was no interest income in 2015 or 2014 earned from the investment of the unexpended proceeds of tax-exempt borrowings.

(Dollars in thousands)

(e) 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:

	2015		2014	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Fixed rate	$ 1,061,337	1,070,000	1,056,790	1,100,000
Variable rate	327,612	328,000	348,550	349,000
	$ 1,388,949	1,398,000	1,405,340	1,449,000

(f) Other Credit Agreements

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

Line of credit	Maturity	Purpose
$ 100,000	March 2016	Revolving line of credit
130,000	January 2016	Standby liquidity agreement
80,000	April 2017	Standby liquidity agreement
100,000	September 2018	Standby liquidity agreement
200,000	July 2017	Lines of credit

To support liquidity under the bond and commercial paper revenue notes programs, 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. There were no borrowings under any of the University's credit facilities during fiscal 2015 and 2014.

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, 2015 or 2014.

(Dollars in thousands)

(g) Interest Rate Swap Agreements

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

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

Effective date	Notional amount	Termination date	Interest rate paid	Interest rate received
June 2005	$ 69,265	July 2036	3.87%	SIFMA 0.07% as of June 30, 2015
July 2007	9,540	July 2027	3.45	67.0% of 1-month LIBOR 0.13% as of June 30, 2015
July 2008	75,005	July 2020	3.43	67.0% of 1-month LIBOR 0.13% as of June 30, 2015

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, 2015 and 2014 was a liability of $22,849 and $19,028, 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 loss of $3,821 in fiscal 2015 and a gain of $1,095 in fiscal 2014.

The University is required to post collateral under these agreements under certain events. As of June 30, 2015, $2,000 was held by the counterparty and was included in cash and cash equivalents. There was no required collateral as of June 30, 2015 and 2014.

(Dollars in thousands)

(h) 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, 2015:

	Bonds payable	Notes payable	Commercial paper notes	Total
2016	$ —	7,495	—	7,495
2017	—	7,947	12,551	20,498
2018	45,000	8,481	35,765	89,246
2019	50,000	9,204	—	59,204
2020	8,595	9,989	—	18,584
Thereafter	903,325	5,109	196,307	1,104,741

(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2015 and 2014:

	2015	2014
Contributions restricted for departments and divisions	$ 342,399	328,470
Endowment return restricted for departments, divisions, and student aid	719,269	839,200
Contributions restricted for facilities	75,711	103,647
Split-interest agreements designated for departmental and divisional support	37,013	36,524
Land subject to time and purpose restrictions	76,000	72,000
	$ 1,250,392	1,379,841

Permanently restricted net assets consist of the following as of June 30, 2015 and 2014:

	2015	2014
Contributions restricted for departments and divisions	$ 64,992	57,858
Donor restricted endowment funds	1,628,809	1,513,107
Perpetual trusts	59,679	59,337
Contributions receivable	107,106	52,442
	$ 1,860,586	1,682,744

Income is available from these net assets for departmental and divisional support and student aid ($1,534,701 in 2015 and $1,376,311 in 2014) and ($325,885 in 2015 and $306,433 in 2014).

(10) University Endowment

The University's endowment consists of approximately 3,700 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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.

(Dollars in thousands)

Endowment net assets consist of the following as of June 30, 2015:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (2,071)	719,269	1,628,809	2,346,007
Board-designated endowment funds	980,925	—	—	980,925
	$ 978,854	719,269	1,628,809	3,326,932

Endowment net assets consist of the following as of June 30, 2014:

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

Changes in endowment net assets for the years ended June 30, 2015 and 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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	1,040,222	839,200	1,513,107	3,392,529
Investment return	25,746	(24,528)	911	2,129
Contributions and designations	3,443	(81)	113,887	117,249
Withdrawals	(25,000)	(8,954)	—	(33,954)
Appropriation for expenditure	(65,557)	(85,464)	—	(151,021)
Appropriation reinvested	—	(904)	904	—
Endowment net assets, June 30, 2015	$ 978,854	719,269	1,628,809	3,326,932

(Dollars in thousands)

The Board authorized withdrawals for the purchase of land and other capital activities for the APL.

(11) Affiliated Institutions

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2015 and 2014:

		2015	2014
Johns Hopkins Health System	$	30,015	26,550
Johns Hopkins Hospital		277,205	252,587
Johns Hopkins Bayview Medical Center		66,999	65,476
Other Johns Hopkins entities		85,261	70,082
Other affiliated medical institutions		24,065	32,983
	$	483,545	447,678

(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 consolidated statements 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 $198,259 in fiscal 2015 and $185,625 in fiscal 2014. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated $44,401 in fiscal 2015 and $45,187 in fiscal 2014, and are included in operating expenses in the consolidated 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 $60,824 in fiscal 2015 and $61,327 in fiscal 2014.

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

In July 2007, the University and JHHEFI entered into an agreement whereby JHHEFI transferred approximately $381,000 to the University to invest in the University's EIP and have the University manage these assets on JHHEFI's behalf. The funds were invested with other University assets in the University's name and title, and in accordance with the University's EIP investment policies and objectives. JHHEFI receives payouts as determined by their Board of Trustees and may terminate the agreement upon 180 days' written notice with liquidations to be made over a three-year period as specified in the agreement. The assets are included in investments in the consolidated balance sheets, and a corresponding liability of $450,252 and $469,956 is included in endowment and similar funds held for others as of June 30, 2015 and 2014, respectively.

(e) Jointly Owned Entities

As of June 30, 2015 and 2014, 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 $227,842 and $202,169 as of June 30, 2015 and 2014, respectively. Equity in earnings of affiliates aggregated approximately $34,721 in fiscal 2015 and $25,740 in fiscal 2014.

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 2015 and 2014 were approximately $34,356 and $38,060, 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 $132,700. The total approved capital cost of the overall project inclusive of phases that are in the process of being implemented is $284,700. The cost of implementing the enterprise information technology strategy will be financed through a combination of loans from, or guarantees by, the University and JHHS. The University has committed to funding up to $34,423 of the project. As of June 30, 2015 and 2014, $18,891 and $16,900, respectively, was outstanding on the loan. In addition, the University has agreed to guarantee a pooled loan of up to $13,000.

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

(Dollars in thousands)

The following table summarizes the aggregate condensed financial information of the jointly owned entities and the University's proportionate share of the entities as of and for the years ended June 30, 2015 and 2014, respectively:

	2015		2014	
	Total	**University interest**	**Total**	**University interest**
Assets	$ 950,588	422,050	853,371	382,402
Liabilities	644,444	296,889	616,474	284,015
Operating revenues	2,124,064	859,656	1,839,930	734,049
Operating expenses	2,010,448	824,935	1,736,951	708,309

(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 earned. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was $199,931 in fiscal 2015 and $195,455 in fiscal 2014, including $179,276 and $169,475, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for $60,455 in fiscal 2015 and $56,378 in fiscal 2014.

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.

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.

In October 2014, the Society of Actuaries released new data regarding observed mortality rate improvements. Updated mortality tables have been considered by the University and have been adopted as of June 30, 2015. Implementation of the new mortality tables increased the projected benefit obligation of the defined benefit pension plan by $27,200 and the postretirement medical plan by $21,400.

(Dollars in thousands)

The University uses a June 30 measurement date for its defined benefit pension plan and retiree benefit plans. Information relating to the benefit obligation, assets, and funded status of the defined benefit pension plan and the postretirement benefit plans as of and for the years ended June 30, 2015 and 2014 is summarized as follows:

		Pension plan		Postretirement plans	
		2015	2014	2015	2014
Change in benefit obligation:					
Benefit obligation at beginning of year	$	624,309	556,960	256,856	236,522
Service cost		16,882	16,622	9,101	8,019
Interest cost		25,957	25,306	10,378	10,595
Participant contributions		—	—	9,672	9,225
Actuarial loss		4,741	40,671	5,930	10,826
Benefits paid		(16,997)	(15,250)	(19,551)	(19,720)
Medicare subsidies received		—	—	1,288	1,389
Benefit obligation at end of year		654,892	624,309	273,674	256,856
Change in plan assets:					
Fair value of plan assets at beginning of year		469,151	395,728	268,560	234,799
Actual return on plan assets		3,579	62,991	2,073	37,690
University contributions		20,654	25,682	4,684	5,175
Participant contributions		—	—	9,672	9,225
Benefits paid		(16,997)	(15,250)	(19,551)	(19,720)
Medicare subsidies received		—	—	1,288	1,391
Fair value of plan assets at end of year		476,387	469,151	266,726	268,560
Funded status recognized as other long-term liabilities, net	$	(178,505)	(155,158)	(6,948)	11,704

The accumulated benefit obligation for the pension plan was $631,990 as of June 30, 2015 and $600,019 as of June 30, 2014.

(Dollars in thousands)

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2015 and 2014:

		Pension plan		Postretirement plans	
		2015	2014	2015	2014
Net loss (gain) for the year	$	32,605	4,293	23,058	(10,106)
Amortization of prior service cost		167	167	1,736	1,736
Amortization of net loss		(9,426)	(10,531)	(787)	(1,270)
Net loss (gain) recognized in nonoperating activities	$	23,346	(6,071)	24,007	(9,640)

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2016:

		Pension plan	Postretirement plans
Net loss	$	(11,191)	(1,362)
Prior service cost		167	1,736
	$	(11,024)	374

The net pension and postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2015 and 2014:

		Pension plan		Postretirement plans	
		2015	2014	2015	2014
Service cost	$	16,882	16,622	9,101	8,019
Interest cost on accumulated benefit obligation		25,957	25,306	10,378	10,595
Amortization of prior service cost		(167)	(167)	(1,736)	(1,736)
Expected return on plan assets		(31,444)	(26,612)	(19,201)	(16,759)
Amortization of actuarial loss		9,426	10,531	787	1,270
	$	20,654	25,680	(671)	1,389

(Continued)

(Dollars in thousands)

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

	Pension plan		**Postretirement plans**	
	2015	**2014**	**2015**	**2014**
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	4.45%	4.20%	4.45%	4.20%
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	7.00	7.20
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	4.20%	4.60%	4.20%	4.60%
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	7.20	7.30

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 7.2% in 2015 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, 2015 would have the following effects:

		Increase	**Decrease**
Total service and interest cost components	$	393	(360)
Postretirement benefit obligation		9,480	(8,285)

(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).

(Dollars in thousands)

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 table presents the fair value and categorization within the fair value hierarchy of the assets of the defined benefit pension plan as of June 30, 2015 and 2014:

	2015			2014		
	Total	**Level 1**	**Funds at NAV**	**Total**	**Level 1**	**Funds at NAV**
Cash and cash equivalents	$ 3,968	3,968	—	6,914	6,914	—
Fixed income securities	91,652	—	91,652	85,849	—	85,849
United States equities and international equities	305,600	157,713	147,887	306,117	151,964	154,153
Real assets	15,681	—	15,681	14,274	—	14,274
Marketable alternatives	59,486	—	59,486	55,997	—	55,997
Total	$ 476,387	161,681	314,706	469,151	158,878	310,273

(c) Postretirement Plans

The following table presents the fair value and categorization within the fair value hierarchy of the assets of the postretirement plans as of June 30, 2015 and 2014:

	2015			2014		
	Total	**Level 1**	**Funds at NAV**	**Total**	**Level 1**	**Funds at NAV**
Cash and cash equivalents	$ 5,669	5,669	—	7,804	7,804	—
Fixed income securities	75,439	3,868	71,571	69,830	3,454	66,376
United States equities and international equities	166,136	82,735	83,401	171,016	82,244	88,772
Marketable alternatives	19,482	—	19,482	19,910	—	19,910
Total	$ 266,726	92,272	174,454	268,560	93,502	175,058

The Plans have no unfunded commitments to fund managers as of June 30, 2015 and 2014.

Information with respect to investee strategies for those investments in funds whose fair value is estimated based upon reported NAV follows:

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.

Real estate: This includes a commingled fund making investments in real estate. This investment makes income distributions to investors. Redemptions are permitted quarterly with a 90 day notice period.

(Dollars in thousands)

Marketable alternatives: This includes multistrategy, credit and distressed debt, relative value, and event-driven funds in hedge fund. Hedge funds have various redemption periods with notice requirements up to 90 days.

The University's target asset allocations for the pension plan and the postretirement plans as of June 30, 2015 and 2014:

	Pension plan	Postretirement plans
Fixed income securities	30	35
United States equities and international equities	50	65
Real estate	15	—
Marketable alternatives	5	—
Total	100%	100%

(d) Cash Flows

The University expects to contribute $24,290 to the pension plan in 2016 and $6,177 to its postretirement benefit plans in 2016.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2015 and in aggregate for the five years thereafter are as follows:

	Pension plan	Postretirement plans	Medicare subsidies
2016	$ 20,619	12,748	2,173
2017	21,755	13,509	2,416
2018	23,179	14,440	2,018
2019	24,812	15,226	2,078
2020	26,388	15,954	2,134
2021–2025	159,548	92,373	4,698

(Dollars in thousands)

(13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2015 and 2014:

		2015	2014
Instruction, research, and clinical practice:			
Academic and support divisions	$	3,136,495	3,043,594
APL contracts		1,249,821	1,163,026
Student services		99,145	98,776
Libraries		47,493	44,642
General services and administration		460,252	444,984
Auxiliary enterprises		98,162	106,305
	$	5,091,368	4,901,327

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 ending June 30, 2016.

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, 2015:

		Affiliates	Others	Total
2016	$	14,338	31,366	45,704
2017		11,927	29,194	41,121
2018		11,864	25,392	37,256
2019		8,744	21,009	29,753
2020		8,616	17,764	26,380
After 2020		30,227	38,553	68,780
	$	85,716	163,278	248,994

Rental expense for the long-term operating leases was $48,802 in fiscal year 2015 and $44,968 in fiscal year 2014.

(Continued)

(Dollars in thousands)

The University also leases building and leasehold improvements and certain equipment under capital leases. The following is a summary of minimum lease payments for these leases as of June 30, 2015:

2016	$	7,433
2017		7,650
2018		7,873
2019		8,103
2020		6,484
After 2020		57,225
Minimum lease payments		94,768
Less imputed interest (at rates from 4.03% to 8.41%)		33,107
Present value of minimum lease payments	$	61,661

As of June 30, 2015, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to $75,646 and $29,846, respectively.

(15) Other Commitments and Contingencies

(a) Commitments and Guarantees

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

- The University has guaranteed payment of principal and interest on the Series 2005B Bonds issued by MHHEFA for JHMI Utilities LLC. JHMI Utilities LLC is equally owned by the Hospital and the University. The proceeds of the 2005B Bonds ($24,300) and the Hospital guaranteed 2015A Bonds ($19,505) 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, 2015, the University's guarantee amounted to $16,046 and continues until maturity of the loans occurring through 2029. In addition, the University has agreed to provide guarantees of up to $13,000 in loans for financing of EPIC implementation. As of June 30, 2015, the University's guarantee for these loans which have not been fully drawn, amounted to $2,286 and will continue until maturity of the loans occurring through 2027.

(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 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.

Specific Matters

On April 1, 2015, a complaint was filed in the Circuit Court for Baltimore City against The Johns Hopkins University (the University), its Bloomberg School of Public Health and its School of Medicine, The Johns Hopkins Health System Corporation and The Johns Hopkins Hospital (collectively the Johns Hopkins Defendants), as well as another institution and a pharmaceutical company. The case was removed to the United States District Court for the District of Maryland the same day. The claims arise from human experiments conducted in Guatemala between 1946 and 1948 (the Study) under the auspices of the United States Public Health Service, the Guatemala government, and the Pan American Sanitary Bureau. The 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 venereal 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 complaint asserts claims of lack of consent/lack of informed consent, negligence, battery, unjust enrichment, wrongful death, fraud or deceit by misrepresentation, fraudulent concealment, and intentional infliction of emotional distress, and seeks compensatory damages in excess of $75 and punitive damages of $1,000,000. The Johns Hopkins Defendants dispute both the factual allegations and legal claims in the complaint. The Johns Hopkins Defendants did not initiate, pay for, direct, or conduct the Study. In 2010, the United States government accepted responsibility for the Study and apologized to all who were affected by it. Management and legal counsel for the University believe the claims asserted are not supported by the facts or the law. The University intends to vigorously defend the lawsuit.

On June 29, 2015, all defendants filed a motion to dismiss the complaint as time-barred on the basis of statute of limitations. On June 30, 2015, plaintiffs filed an amended complaint adding additional plaintiffs and a new count under the Alien Tort Statute (ATS). On July 10, 2015, defendants filed a supplement to the motion to dismiss requesting that all counts, including the newly filed ATS count, be dismissed on the basis of statute of limitations. Plantiffs' filed an opposition on August 28, 2015 and defendants' reply is due on October 15, 2015.

(16) Subsequent Events

The University evaluated subsequent events through October 8, 2015, which is the date the consolidated financial statements were issued and there were no matters that required adjustment to or disclosure in the consolidated financial statements.