



THE JOHNS HOPKINS UNIVERSITY
Consolidated Financial Statements
June 30, 2016 and 2015
(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, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

October 17, 2016

THE JOHNS HOPKINS UNIVERSITY

Consolidated Balance Sheets

June 30, 2016 and 2015

(In thousands)

Assets	2016	2015
Cash and cash equivalents	\$ 397,083	343,562
Operating investments	1,178,323	1,001,608
Cash, cash equivalents and operating investments	1,575,406	1,345,170
Sponsored research accounts receivable, net	354,338	367,118
Accounts receivable, net	184,017	156,854
Contributions receivable, net	267,125	239,496
Prepaid expenses and deferred charges	57,565	49,697
Student loans receivable, net	37,906	37,072
Investments	4,164,628	4,224,081
Property and equipment, net	2,026,615	2,061,263
Investment in and loans to affiliates	250,225	233,949
Other assets	201,905	192,378
Interests in trusts and endowment funds held by others	108,499	113,877
Total assets	\$ 9,228,229	9,020,955
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 569,539	504,466
Sponsored research deferred revenues	338,929	283,848
Other deferred revenues	144,010	121,897
Debt	1,338,443	1,388,949
Other long-term liabilities	290,397	277,757
Pension and postretirement obligations	334,956	185,453
Liabilities under split-interest agreements	80,846	82,961
Endowment and similar funds held for others	530,747	560,334
Total liabilities	3,627,867	3,405,665
Net assets:		
Unrestricted	2,402,328	2,504,312
Temporarily restricted	1,183,475	1,250,392
Permanently restricted	2,014,559	1,860,586
Total net assets	5,600,362	5,615,290
Total liabilities and net assets	\$ 9,228,229	9,020,955

See accompanying notes to consolidated financial statements.

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Activities

Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets from operating activities:		
Operating revenues:		
Tuition and fees	\$ 866,235	802,769
Less financial aid	<u>(290,499)</u>	<u>(273,676)</u>
Tuition and fees, net of financial aid	<u>575,736</u>	<u>529,093</u>
Grants, contracts, and similar agreements	1,343,951	1,279,280
Facilities and administrative cost recoveries	328,422	306,051
Applied Physics Laboratory contract revenues	<u>1,351,141</u>	<u>1,308,048</u>
Sponsored research revenues	<u>3,023,514</u>	<u>2,893,379</u>
Contributions	127,334	127,770
Net assets released from restrictions	<u>80,007</u>	<u>83,313</u>
Contributions and donor support	207,341	211,083
Clinical services	653,921	621,474
Reimbursements from affiliated institutions	517,152	483,545
Other revenues	153,364	149,750
Endowment payout used to support operations	158,267	151,021
Auxiliary enterprises	96,166	97,712
Maryland State aid	19,326	18,117
Investment return	<u>25,753</u>	<u>17,083</u>
Total operating revenues	<u>5,430,540</u>	<u>5,172,257</u>
Operating expenses:		
Compensation	2,419,056	2,270,150
Benefits	<u>755,926</u>	<u>715,748</u>
Compensation and benefits	3,174,982	2,985,898
Subcontractors and subrecipients	493,370	513,032
Contractual services	644,508	612,525
Supplies, materials, and other	626,026	592,538
Depreciation and amortization	209,972	207,950
Travel	131,694	125,870
Interest	<u>51,733</u>	<u>53,555</u>
Total operating expenses	<u>5,332,285</u>	<u>5,091,368</u>
Excess of operating revenues over operating expenses	<u>98,255</u>	<u>80,889</u>

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Years ended June 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets from nonoperating activities:		
Investment return less than endowment payout	\$ (68,543)	(47,513)
Change in benefits plan funded status, excluding benefits cost	(154,441)	(47,353)
Loss on debt refinancing	—	(21,163)
Change in fair value on interest rate swap agreements	(10,935)	(3,821)
Other, net	26,425	11,664
Net assets released from restrictions	<u>7,255</u>	<u>44,759</u>
Change in unrestricted net assets from nonoperating activities	<u>(200,239)</u>	<u>(63,427)</u>
Total changes in unrestricted net assets	<u>(101,984)</u>	<u>17,462</u>
Changes in temporarily restricted net assets:		
Contributions	124,773	102,018
Investment return less than endowment payout	(104,428)	(103,395)
Net assets released from restrictions	<u>(87,262)</u>	<u>(128,072)</u>
Total changes in temporarily restricted net assets	<u>(66,917)</u>	<u>(129,449)</u>
Changes in permanently restricted net assets:		
Contributions	157,149	174,246
Investment return	<u>(3,176)</u>	<u>3,596</u>
Total changes in permanently restricted net assets	<u>153,973</u>	<u>177,842</u>
Total changes in net assets	(14,928)	65,855
Net assets at beginning of year	<u>5,615,290</u>	<u>5,549,435</u>
Net assets at end of year	<u>\$ 5,600,362</u>	<u>5,615,290</u>

See accompanying notes to consolidated financial statements.

THE JOHNS HOPKINS UNIVERSITY

Consolidated Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities:		
Changes in net assets	\$ (14,928)	65,855
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation, amortization, and loss on asset disposals	210,744	208,055
Contributions restricted for long-term investment	(207,375)	(217,132)
Net realized and unrealized losses from investments	36,514	24,203
Net unrealized losses from swaps	10,935	3,821
Loss on bond refinancings	—	21,163
Change in benefit plans funded status	149,503	41,999
Changes in operating assets and liabilities:		
Sponsored research and accounts receivable, net	(14,383)	(45,701)
Contributions receivable, net	(32,855)	351
Prepaid expenses and deferred charges	(7,868)	153
Investments in and loans to affiliates	(7,594)	(34,721)
Other assets	(15,090)	11,125
Accounts payable and accrued expenses	55,906	47,663
Sponsored research and other deferred revenues and other long-term liabilities	84,462	8,134
Interests and liabilities related to trusts and split-interest agreements	10,570	18,245
Net cash provided by operating activities	258,541	153,213
Cash flows from investing activities:		
Purchases of investments	(2,845,139)	(2,282,569)
Proceeds from sales and maturities of investments	2,679,390	2,224,384
Purchases of property and equipment	(149,143)	(189,182)
Disbursements for student loans	(7,150)	(7,166)
Repayments of student loans	6,316	6,027
Advances to affiliates, net of repayments	(9,835)	800
Joint venture dividends, net of capital contributions	1,153	8,203
Change in endowments and similar funds held for others	(24,921)	(24,339)
Net cash used in investing activities	(349,329)	(263,842)
Cash flows from financing activities:		
Contributions restricted for long-term investment	212,601	167,712
Proceeds from borrowings	50,000	164,075
Early retirement and refinancings of debt	(107,683)	(188,579)
Scheduled debt payments	(10,609)	(11,422)
Net cash provided by financing activities	144,309	131,786
Net increase in cash and cash equivalents	53,521	21,157
Cash and cash equivalents at beginning of year	343,562	322,405
Cash and cash equivalents at end of year	\$ 397,083	343,562

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

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(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 23,000 students, including 14,000 full-time students and 9,000 part-time students, and on a net basis provided approximately 10% of the University's operating revenues in fiscal years 2016 and 2015. Approximately 60% of the full-time students are graduate level (including postdoctoral) and 40% are 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 provided approximately 56% of the University's operating revenues in both fiscal years 2016 and 2015. Approximately 87% of these revenues come from departments and agencies of the United States government in both fiscal 2016 and 2015. 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 2016 and 2015. 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), Johns Hopkins University Press, and affiliated organizations, all of 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 consolidated financial statements in conformity with U.S. 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 dates of the financial statements and revenues and expenses recognized during the reporting periods. 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 and reclassified 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. Investments with longer maturities 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.

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(d) Contributions

Contributions, including unconditional promises to give, are recognized in the appropriate category of net assets in the period received, except contributions, that 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 considering 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 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 certain international equities in common collective trust funds (CCTFs) are stated at fair value, which are determined primarily based on quoted market prices. Fair values of CCTFs, similar to mutual funds that are deemed to have a readily determinable fair value (RDFV) are based on published NAV. Investments in private equity and venture capital, certain real estate, natural resources, certain international equities in CCTFs and marketable alternatives, (collectively, alternative investments) are stated at estimated fair value based on the funds' net asset values, or their equivalents (collectively NAV) as a practical expedient. If it is probable that alternative investments will be sold for an amount different than NAV, measurement of the alternative investments will be adjusted to fair value. As of June 30, 2016, certain assets were held for sale at amounts different than NAV and are included as Level 3 in the leveling table. At June 30, 2015, 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.

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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) 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, operating statistics, specific and broad credit data, recent transactions, earnings forecasts, discount rates, reserve reports, and other factors.

(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 \$59,510 and \$63,066

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classified in investments and \$37,486 and \$37,605 classified in liabilities under split-interest agreements, respectively, as of June 30, 2016 and 2015.

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 consolidated 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 and software maintenance costs are expensed as incurred.

Costs relating to retirement, disposal, or abandonment of assets for which 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.

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(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 72% and 76% of receivables related to reimbursement of costs incurred under grants and contracts as of June 30, 2016 and 2015, 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.

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(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 \$71,536 and \$69,188 as of June 30, 2016 and 2015, respectively, and are presented as other long-term liabilities on the consolidated balance sheets.

(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 \$29,964 and \$29,927 as of June 30, 2016 and 2015, 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

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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, 2016 and 2015, 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, 2016 and 2015 were \$7,415 and \$16,582, respectively. The University acquired property through capital lease obligations of \$19,503 during fiscal 2016.

(u) *Recent Accounting Pronouncements*

In 2016, the University retroactively adopted the provisions of Accounting Standards Update (ASU) No. 2015-10, *Technical Corrections and Improvements*. This ASU clarified one aspect of the definition of RDFV, thereby affecting the measurement of and disclosure about certain equity instruments. During 2016, management evaluated its investments in the endowment and pension and postretirement funds, historically measured using NAV as a practical expedient in structures with characteristics similar to a mutual fund, as to whether they have an RDFV. Investments of \$78,161 in the endowment, \$111,861 in the pension plan, and \$78,551 in the postretirement plan, previously presented using NAV as a practical expedient as of June 30, 2015 and excluded from the fair value hierarchy, were determined to have an RDFV and have been classified as Level 1 investments. This is consistent with the June 30, 2016 presentation.

(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

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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.

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 74% and 18% of APL's revenues in fiscal 2016 were from the Department of Defense (primarily under the Navy Contract) and the National Aeronautics and Space Administration, respectively. In fiscal 2015, those percentages were 76% and 16%, 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, 2016 and 2015:

	2016	2015
Affiliated institutions, primarily the Hospital (note 11)	\$ 33,986	31,829
Students	18,141	15,747
Others	37,847	39,983
Total, net of allowances of \$15,183 in 2016 and \$14,902 in 2015	89,974	87,559
Receivables for clinical professional fees, net of contractual and bad debt allowances of \$161,161 in 2016 and \$126,027 in 2015	94,043	69,295
	\$ 184,017	156,854

The mix of gross accounts receivable for clinical professional fees from patients and third-party payors consisted of the following as of June 30, 2016 and 2015: commercial third parties 44% and 45%, respectively; Medicare 20% and 19%, respectively; Medicaid 14% and 13%, respectively; Blue Cross/Blue Shield 6% and 9%, respectively; and patients 16% and 14%, respectively.

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(4) Contributions Receivable

Contributions receivable, net, are summarized as follows as of June 30, 2016 and 2015:

	2016	2015
Unconditional promises scheduled to be collected in:		
Less than one year	\$ 75,584	79,098
One year to five years	201,057	169,460
Over five years	9,218	10,304
	285,859	258,862
Less unamortized discount (interest ranging from 0.7% to 5.1%) and allowances for uncollectible contributions	18,734	19,366
	\$ 267,125	239,496

As of June 30, 2016 and 2015, 48% and 39%, respectively, of the gross contributions receivable were due from ten donors. Approximately 46% of contribution revenues for fiscal 2016 and 2015, were from ten donors. As of June 30, 2016, 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Operating investments	\$ 1,178,323	1,001,608
Investments	<u>4,164,628</u>	<u>4,224,081</u>
	<u>\$ 5,342,951</u>	<u>5,225,689</u>
Cash and cash equivalents	\$ 206,642	508,428
United States government and agency obligations	1,339,810	995,780
Debt securities	299,259	298,684
United States equities	329,836	430,313
International equities	1,060,443	957,491
Private equity and venture capital	600,301	602,423
Real estate	422,295	374,051
Natural resources	315,016	299,547
Marketable alternatives	<u>769,349</u>	<u>758,972</u>
	<u>\$ 5,342,951</u>	<u>5,225,689</u>

The following table summarizes the University's investments as of June 30, 2016 and 2015 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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>
International equities	\$ 882,304	808,748	—	—	73% Monthly 18% Quarterly 9% Annually	1 to 120 days
Private equity and venture capital	600,301	602,423	461,635	425,836	N/A	N/A
Real estate	273,081	228,312	261,655	238,129	N/A	N/A
Natural resources	262,964	292,527	143,293	122,976	N/A	N/A
Marketable alternatives	<u>769,349</u>	<u>758,972</u>	<u>134,526</u>	<u>92,272</u>	See chart below	30 to 90 days ⁽¹⁾
	<u>\$ 2,787,999</u>	<u>2,690,982</u>	<u>1,001,109</u>	<u>879,213</u>		

(1) Investments that are not redeemable total \$180,489

The commitments may be drawn down over the next several years upon request by the general partners and fund managers. The University expects to finance these commitments with available cash and expected proceeds from the sales of securities.

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Marketable alternatives have the following redemption periods as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Quarterly redemptions	\$ —	36,756
Annual redemptions	251,930	213,774
Quarterly or annual over 1- to 3-year period	219,486	207,678
Rolling 3- to 5-year redemption	117,444	121,813
Drawdown funds over 10-year period	180,489	178,951
	<u>\$ 769,349</u>	<u>758,972</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.

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 multi-strategy, 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 30 to 90 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Dividend and interest income	\$ 74,199	74,542
Net realized and unrealized losses	(32,533)	(25,666)
External investment management fees and expenses	(29,812)	(29,547)
Change in value of interests in trusts and endowment funds held by others	<u>(3,981)</u>	<u>1,463</u>
	<u>\$ 7,873</u>	<u>20,792</u>

Investment return is classified in the consolidated statements of activities as follows for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Operating, including endowment payout	\$ 184,020	168,104
Nonoperating	(68,543)	(47,513)
Temporarily restricted net assets	(104,428)	(103,395)
Permanently restricted net assets	<u>(3,176)</u>	<u>3,596</u>
	<u>\$ 7,873</u>	<u>20,792</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, 2016:

	Fair value as of June 30, 2016	Level 1	Level 2	Level 3	Funds at NAV⁽¹⁾
Assets:					
Operating investments:					
United States government and agency obligations	\$ 897,824	897,824	—	—	—
Debt securities	280,499	112,441	168,058	—	—
Total operating investments	<u>1,178,323</u>	<u>1,010,265</u>	<u>168,058</u>	<u>—</u>	<u>—</u>
Investments, at fair value:					
Cash and cash equivalents	\$ 206,642	206,642	—	—	—
United States government and agency obligations	441,986	441,986	—	—	—
Debt securities	18,760	18,760	—	—	—
United States equities	329,836	329,836	—	—	—
International equities	1,060,443	178,139	—	—	882,304
Private equity and venture capital	600,301	—	—	—	600,301
Marketable alternatives	769,349	—	—	—	769,349
Real estate	422,295	17,003	—	132,211	273,081
Natural resources	315,016	6,319	—	45,733	262,964
Total investments	<u>4,164,628</u>	<u>1,198,685</u>	<u>—</u>	<u>177,944</u>	<u>2,787,999</u>
Other assets:					
Deferred compensation assets	88,158	88,158	—	—	—
Interests in trusts and endowment funds held by others	108,499	—	—	108,499	—
Total assets	<u>\$ 5,539,608</u>	<u>2,297,108</u>	<u>168,058</u>	<u>286,443</u>	<u>2,787,999</u>
Liabilities:					
Interest rate swaps	\$ 33,784	—	33,784	—	—
Obligations under deferred compensation agreements	86,892	—	86,892	—	—
Endowment and similar funds held for others	530,747	—	—	530,747	—
Total liabilities	<u>\$ 651,423</u>	<u>—</u>	<u>120,676</u>	<u>530,747</u>	<u>—</u>

⁽¹⁾ Investments which are measured at fair value using NAV as a practical expedient and are not classified within the fair value hierarchy. The estimated fair value amounts permit reconciliation of investments in the fair value hierarchy table to amounts presented in the consolidated balance sheets. These investments are described more in detail in note 5.

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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, 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	<u>274,940</u>	<u>90,804</u>	<u>184,136</u>	<u>—</u>	<u>—</u>
Total operating investments	<u>1,001,608</u>	<u>817,472</u>	<u>184,136</u>	<u>—</u>	<u>—</u>
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	148,743	—	—	808,748
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	<u>299,547</u>	<u>7,020</u>	<u>—</u>	<u>—</u>	<u>292,527</u>
Total investments	4,224,081	1,404,620	—	128,479	2,690,982
Other assets:					
Deferred compensation assets	93,721	93,721	—	—	—
Interests in trusts and endowment funds held by others	<u>113,877</u>	<u>—</u>	<u>—</u>	<u>113,877</u>	<u>—</u>
Total assets	<u>\$ 5,433,287</u>	<u>2,315,813</u>	<u>184,136</u>	<u>242,356</u>	<u>2,690,982</u>
Liabilities:					
Interest rate swaps	\$ 22,849	—	22,849	—	—
Obligations under deferred compensation agreements	92,719	—	92,719	—	—
Endowment and similar funds held for others	<u>560,334</u>	<u>—</u>	<u>—</u>	<u>560,334</u>	<u>—</u>
Total liabilities	<u>\$ 675,902</u>	<u>—</u>	<u>115,568</u>	<u>560,334</u>	<u>—</u>

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The methods and assumptions used to estimate the fair value of investments are defined in note 1(f). The methods and assumptions used to estimate the fair value of interest rate swap liabilities are defined in note 8(f). 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, 2016 and 2015:

	Real estate	Natural resources	Interests in trusts and endowments held by others	Endowment and similar funds held for others
Balance as of June 30, 2014	\$ 124,633	—	114,337	585,120
Net realized and unrealized gains/(losses)	3,846	—	(460)	(3,559)
Sales and distributions	—	—	—	(21,227)
Balance as of June 30, 2015	128,479	—	113,877	560,334
Transfers from NAV to Level 3	—	45,733	—	—
Net realized and unrealized gains/(losses)	3,732	—	(5,378)	(4,666)
Sales and distributions	—	—	—	(24,921)
Balance as of June 30, 2016	<u>\$ 132,211</u>	<u>45,733</u>	<u>108,499</u>	<u>530,747</u>

For the years ended June 30, 2016 and 2015, the University did not have any transfers between fair value Levels.

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(7) Property and Equipment

Property and equipment, net, are summarized as follows as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Range of useful lives</u>
Land	\$ 101,826	101,722	N/A
Land improvements	100,687	98,430	15 years
Buildings and leasehold improvements	3,111,969	3,027,893	10–40 years
Equipment	905,170	865,522	7–15 years
Capitalized software costs	121,304	119,737	3–10 years
Library collections	298,747	284,006	25 years
Construction in progress	76,228	82,690	N/A
	<u>4,715,931</u>	<u>4,580,000</u>	
Less accumulated depreciation and amortization	<u>2,689,316</u>	<u>2,518,737</u>	
	<u>\$ 2,026,615</u>	<u>2,061,263</u>	

(8) Debt

Debt is summarized as follows as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Bonds payable	\$ 1,032,723	1,034,440
Notes payable	90,615	48,225
Commercial paper revenue notes – tax-exempt	137,169	168,336
Commercial paper revenue notes – taxable	—	76,287
Capital lease obligations (note 14)	77,936	61,661
	<u>\$ 1,338,443</u>	<u>1,388,949</u>

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(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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Revenue Bonds Series 2005A, variable effective rate (0.39%), 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	50,000
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	<u>165,000</u>	<u>165,000</u>
Subtotal	1,006,920	1,006,920
Premium and discount, net	31,560	33,507
Debt issuance cost, net	<u>(5,757)</u>	<u>(5,987)</u>
	<u>\$ 1,032,723</u>	<u>1,034,440</u>

The bonds payable outstanding as of June 30, 2016 and 2015 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.

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(b) Notes Payable

Notes payable consist of the following as of June 30, 2016 and 2015:

	2016	2015
MHHEFA note due November 2020	\$ 6,230	7,393
MHHEFA note due February 2025	2,343	2,599
MHHEFA note due July 2026	4,078	4,301
Note due December 2019, 8.88%	27,964	33,591
Note due March 2017, 2.25%	—	341
Note due April 2020	50,000	—
	\$ 90,615	48,225

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University, bear interest at a variable rate 0.92% and 1.88% as of June 30, 2016 and 2015, 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. The note was retired in October 2015.

The note due April 2020 was issued by a bank in the principal amount of \$50,000 to refinance commercial paper. The note is an unsecured general obligation of the University and bears interest at a variable rate, 0.90% as of June 30, 2016.

(c) Commercial Paper

Under the commercial paper program with MHHEFA, 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, 2016 bear interest at a weighted average rate of 0.44%.

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 \$53,942 in 2016 and \$55,718 in 2015, of which \$796 in 2016 and \$1,180 in 2015 were capitalized. There was no interest income in 2016 or 2015 earned from the investment of the unexpended proceeds of tax-exempt borrowings.

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(e) 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	March 2017	Revolving line of credit
	1,000	April 2017	Standby liquidity agreement
	50,000	September 2018	Standby liquidity agreement
	100,000	November 2020	Standby liquidity agreement
	60,000	December 2020	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 four 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 2016 and 2015.

Under terms of a master note agreement with a commercial bank, the University may borrow up to \$100,000 under a revolving line of credit for APL working capital purposes. Advances under the revolving 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 revolving line of credit as of June 30, 2016 or 2015.

(f) 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 0.43% as of June 30, 2016
July 2007	9,020	July 2027	3.45	67.0% of 1-month LIBOR 0.31% as of June 30, 2016
July 2008	64,040	July 2020	3.43	67.0% of 1-month LIBOR 0.31% as of June 30, 2016

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, 2016 and 2015 was a liability of \$33,784 and \$22,849, 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 \$10,935 and \$3,821 in fiscal 2016 and 2015, respectively.

The University is required to post collateral under these agreements when certain thresholds are exceeded. As of June 30, 2016, the required collateral was \$10,300, which is included in cash and cash equivalents. As of June 30, 2015, there was no required collateral.

(g) 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, 2016:

	<u>Bonds payable</u>	<u>Notes payable</u>	<u>Commercial paper notes</u>	<u>Total</u>
2017	\$ —	7,832	—	7,832
2018	45,000	8,481	17,149	70,630
2019	50,000	9,204	—	59,204
2020	8,595	59,989	—	68,584
2021	8,590	1,257	6,031	15,878
Thereafter	894,735	3,852	113,989	1,012,576

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(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2016 and 2015:

	2016	2015
Contributions, including annuities and other trusts	\$ 377,900	342,399
Endowment return restricted for departments, divisions, and student aid	607,839	719,269
Contributions restricted for facilities	87,904	75,711
Split-interest agreements designated for departmental and divisional support	31,832	37,013
Land subject to time and purpose restrictions	78,000	76,000
	\$ 1,183,475	1,250,392

Permanently restricted net assets consist of the following as of June 30, 2016 and 2015:

	2016	2015
Contributions, including annuities and other trusts	\$ 60,320	64,992
Donor restricted endowment funds	1,784,006	1,628,809
Perpetual trusts	55,016	59,679
Contributions receivable	115,217	107,106
	\$ 2,014,559	1,860,586

Income is available from these permanently restricted net assets for departmental and divisional support (\$1,667,365 in 2016 and \$1,534,701 in 2015) and student aid (\$347,194 in 2016 and \$325,885 in 2015).

(10) University Endowment

The University's endowment consists of approximately 3,800 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

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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, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (21,178)	607,839	1,784,007	2,370,668
Board-designated endowment funds	936,319	—	—	936,319
	<u>\$ 915,141</u>	<u>607,839</u>	<u>1,784,007</u>	<u>3,306,987</u>

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

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

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Changes in endowment net assets for the years ended June 30, 2016 and 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
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	<u>—</u>	<u>(904)</u>	<u>904</u>	<u>—</u>
Endowment net assets, June 30, 2015	978,854	719,269	1,628,809	3,326,932
Investment return	9,552	(27,749)	994	(17,203)
Contributions and designations	2,423	(160)	153,262	155,525
Appropriation for expenditure	(75,688)	(82,579)	—	(158,267)
Appropriation reinvested	<u>—</u>	<u>(942)</u>	<u>942</u>	<u>—</u>
Endowment net assets, June 30, 2016	<u>\$ 915,141</u>	<u>607,839</u>	<u>1,784,007</u>	<u>3,306,987</u>

The Board of Trustees authorized withdrawals for the purchase of land and other capital activities for the APL in fiscal 2015.

(11) Affiliated Institutions

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Johns Hopkins Health System	\$ 42,571	30,015
Johns Hopkins Hospital	279,032	277,205
Johns Hopkins Bayview Medical Center	69,389	66,999
Other Johns Hopkins entities	100,283	85,261
Other affiliated medical institutions	<u>25,877</u>	<u>24,065</u>
	<u>\$ 517,152</u>	<u>483,545</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.

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 \$203,692 in fiscal 2016 and \$198,259 in fiscal 2015. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated \$47,818 in fiscal 2016 and \$44,401 in fiscal 2015, 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 \$66,709 in fiscal 2016 and \$60,824 in fiscal 2015.

(d) *The Johns Hopkins Hospital Endowment Fund Incorporated (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 \$426,772 and \$450,252 is included in endowment and similar funds held for others as of June 30, 2016 and 2015, respectively.

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(e) Jointly Owned Entities

As of June 30, 2016 and 2015, 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 \$245,041 and \$227,842 as of June 30, 2016 and 2015, respectively. Equity in earnings of affiliates aggregated approximately \$7,594 in fiscal 2016 and \$34,721 in fiscal 2015.

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 2016 and 2015 were approximately \$33,184 and \$34,356, 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 majority of the project has been successfully implemented with the total project costs as of June 30, 2016 approximately \$229,800. The total approved capital cost of the overall project inclusive of phases that are in the process of being implemented is \$279,600. The cost of implementing the enterprise information technology strategy was 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, 2016 and 2015, \$23,334 and \$18,891, 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.

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, 2016 and 2015, respectively:

	2016		2015	
	Total	University interest	Total	University interest
Assets	\$ 963,039	431,897	950,588	422,050
Liabilities	664,747	300,312	644,444	296,889
Operating revenues	2,177,195	868,370	2,124,064	859,656
Operating expenses	2,110,668	860,776	2,010,448	824,935

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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 earned. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was \$213,401 in fiscal 2016 and \$199,931 in fiscal 2015, including \$190,242 and \$179,276, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for \$64,768 in fiscal 2016 and \$60,455 in fiscal 2015.

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 403(b) 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.

During fiscal 2016, the University offered a vested terminated cash-out option for support staff pension plan participants eligible for a single, lump-sum distribution. A total of 1,523 participants elected the option and the Plan paid lump-sum benefits of \$41,382, which is reflected in benefits paid.

During fiscal 2016, APL adopted an amendment to the postretirement medical plan for employees hired before January 1, 2012 and retired after December 31, 2012. In 2011, APL announced that for those employees, the percentage of premium paid by APL would become a fixed dollar amount beginning in 2017. This fixed dollar amount would be based on the premiums of 2016. The plan amendment changed the effective date of a fixed dollar subsidy from 2017 to 2019. Beginning in 2019, the subsidy will become a fixed dollar amount based on the 2018 premium levels. The plan change increased the accumulated postretirement benefit obligation by \$9,590 for the year ended June 30, 2016.

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 were adopted as of June 30, 2015.

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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, 2016 and 2015 is summarized as follows:

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 654,892	624,309	273,674	256,856
Service cost	15,765	16,882	8,464	9,101
Interest cost	28,601	25,957	11,497	10,378
Participant contributions	—	—	10,007	9,672
Plan amendments	—	—	9,590	—
Actuarial loss	62,821	4,741	28,715	5,930
Benefits paid	(61,297)	(16,997)	(21,714)	(19,551)
Medicare subsidies received	—	—	1,243	1,288
Benefit obligation at end of year	<u>700,782</u>	<u>654,892</u>	<u>321,476</u>	<u>273,674</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	476,387	469,151	266,726	268,560
Actual return on plan assets	(12,267)	3,579	(311)	2,073
University contributions	23,159	20,654	5,369	4,684
Participant contributions	—	—	10,007	9,672
Benefits paid	(61,297)	(16,997)	(21,714)	(19,551)
Medicare subsidies received	—	—	1,243	1,288
Fair value of plan assets at end of year	<u>425,982</u>	<u>476,387</u>	<u>261,320</u>	<u>266,726</u>
Funded status recognized as other long-term liabilities, net	<u>\$ (274,800)</u>	<u>(178,505)</u>	<u>(60,156)</u>	<u>(6,948)</u>

The accumulated benefit obligation for the pension plan was \$674,941 as of June 30, 2016 and \$631,990 as of June 30, 2015.

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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, 2016 and 2015:

	Pension plan		Postretirement plans	
	2016	2015	2016	2015
Net loss for the year	\$ 107,351	32,605	48,101	23,058
Plan amendment	—	—	9,590	—
Amortization of prior service cost	167	167	1,736	1,736
Amortization of net loss	(11,222)	(9,426)	(1,282)	(787)
Net loss recognized in nonoperating activities	<u>\$ 96,296</u>	<u>23,346</u>	<u>58,145</u>	<u>24,007</u>

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2017:

	Pension plan	Postretirement plans
Net loss	\$ (22,052)	(4,507)
Prior service cost	167	788
	<u>\$ (21,885)</u>	<u>(3,719)</u>

The net pension and postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2016 and 2015:

	Pension plan		Postretirement plans	
	2016	2015	2016	2015
Service cost	\$ 15,765	16,882	8,464	9,101
Interest cost on accumulated benefit obligation	28,601	25,957	11,497	10,378
Amortization of prior service cost	(167)	(167)	(1,736)	(1,736)
Expected return on plan assets	(32,262)	(31,444)	(19,074)	(19,201)
Amortization of actuarial loss	11,222	9,426	1,282	787
	<u>\$ 23,159</u>	<u>20,654</u>	<u>433</u>	<u>(671)</u>

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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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	3.65%	4.45%	3.55 – 3.75%	4.45%
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	7.00
	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	\$ 4.45%	4.20%	4.45%	4.20%
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	7.00	7.20

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% in 2016 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, 2016 would have the following effects:

	<u>Increase</u>	<u>Decrease</u>
Total service and interest cost components	\$ 316	(266)
Postretirement benefit obligation	8,166	(6,875)

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(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.

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, 2016 and 2015:

	2016			2015		
	Total	Level 1	Funds at NAV ⁽¹⁾	Total	Level 1	Funds at NAV ⁽¹⁾
Cash and cash equivalents	\$ 1,847	1,847	—	3,968	3,968	—
Fixed income securities	88,514	84,542	3,972	91,652	86,078	5,574
United States equities and international equities	274,984	165,996	108,988	305,600	183,497	122,103
Real assets	18,072	—	18,072	15,681	—	15,681
Marketable alternatives	42,565	—	42,565	59,486	—	59,486
Total	\$ 425,982	252,385	173,597	476,387	273,543	202,844

⁽¹⁾ Investments which are measured at fair value using NAV as a practical expedient and are not classified within the fair value hierarchy.

(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, 2016 and 2015:

	2016			2015		
	Total	Level 1	Funds at NAV ⁽¹⁾	Total	Level 1	Funds at NAV ⁽¹⁾
Cash and cash equivalents	\$ 4,949	4,949	—	5,669	5,669	—
Fixed income securities	73,778	73,778	—	75,439	75,439	—
United States equities and international equities	163,809	95,083	68,726	166,136	88,875	77,261
Marketable alternatives	18,784	—	18,784	19,482	—	19,482
Total	\$ 261,320	173,810	87,510	266,726	169,983	96,743

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(1) Investments which are measured at fair value using NAV as a practical expedient and are not classified within the fair value hierarchy.

The Plans have no unfunded commitments to fund managers as of June 30, 2016 and 2015.

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.

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, 2016 and 2015:

	<u>Pension plan</u>		<u>Postretirement plan</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Fixed income securities	35%	30%	35%	35%
United States equities and international equities	65	50	65	65
Real estate	—	15	—	—
Marketable alternatives	—	5	—	—
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(d) **Cash Flows**

The University expects to contribute \$36,000 to the pension plan in 2016 and \$4,876 to its postretirement benefit plans in 2016.

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The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2016 and in aggregate for the five years thereafter are as follows:

	<u>Pension plan</u>	<u>Postretirement plans</u>	<u>Medicare subsidies</u>
2017	\$ 24,145	12,585	1,866
2018	25,689	13,605	1,639
2019	27,062	14,663	1,743
2020	28,709	15,699	1,843
2021	30,255	16,545	875
2022–2026	174,496	94,108	4,885

(13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Instruction, research, and clinical practice:		
Academic and support divisions	\$ 3,304,677	3,136,495
APL contracts	1,284,510	1,249,821
Student services	104,213	99,145
Libraries	47,182	47,493
General services and administration	497,310	460,252
Auxiliary enterprises	94,393	98,162
	<u>\$ 5,332,285</u>	<u>5,091,368</u>

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, 2017.

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.

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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, 2016:

	Affiliates	Others	Total
2017	\$ 12,962	30,952	43,914
2018	12,416	27,885	40,301
2019	9,316	23,456	32,772
2020	8,996	20,220	29,216
2021	8,227	11,226	19,453
After 2021	22,134	16,686	38,820
	\$ 74,051	130,425	204,476

Rental expense for the long-term operating leases was \$46,540 in fiscal year 2016 and \$48,802 in fiscal year 2015.

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, 2016:

2017	\$ 9,045
2018	9,303
2019	9,569
2020	7,987
2021	8,050
After 2021	68,394
Minimum lease payments	112,348
Less imputed interest (at rates from 3.24% to 8.41%)	34,412
Present value of minimum lease payments	\$ 77,936

As of June 30, 2016, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to \$95,149 and \$34,170, respectively.

(15) Other Commitments and Contingencies

(a) Guarantees

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

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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. As of June 30, 2016, the University's guarantee amounted to \$21,802 and continues until maturity of the loans occurring through 2029.

(b) *Regulatory and Legal Matters*

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.

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.

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. Now on their Second Amended Complaint, the plaintiffs allege 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 advised about the consequences of the experiments or given follow-up care, treatment, or education. The Second Amended 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.

THE JOHNS HOPKINS UNIVERSITY

Notes to Consolidated Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

On July 21, 2016, the parties completed briefing and oral argument on Defendant's Motion to Dismiss the Second Amended Complaint. Defendants moved to dismiss the Second Amended Complaint as time-barred and as failing to state a claim. On September 8, 2016, the Court granted Defendants' Motion to Dismiss the Second Amended Complaint in its entirety and permitted Plaintiffs leave to file a Third Amended Complaint. If Plaintiffs file a Third Amended Complaint, the Defendants will again be able to assert factual and legal defenses related to the statute of limitations and the Plaintiffs' substantive claims.

On August 11, 2016, a group of participants and beneficiaries in The Johns Hopkins University 403(b) Plan (the Plan) filed a complaint against the University, alleging that the University violated federal law by causing the Plan to pay excessive fees for recordkeeping, administrative, and investment services, and by selecting and retaining investment options for the Plan that underperformed their benchmarks and charged excessive investment management fees. The University is in the process of reviewing this lawsuit.

(16) Subsequent Events

The University evaluated subsequent events through October 17, 2016, which is the date the consolidated financial statements were issued.

On August 22, 2016 and August 25, 2016, the University issued taxable commercial paper in the amount of \$20,000 and \$20,000. The weighted average rate on the taxable commercial paper is 0.73%.

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