



**THE JOHNS HOPKINS UNIVERSITY**

Consolidated Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



KPMG LLP  
750 East Pratt Street, 18th Floor  
Baltimore, MD 21202

## Independent Auditors' Report

The Board of Trustees  
The Johns Hopkins University:

We have audited the accompanying consolidated financial statements of The Johns Hopkins University (the University), which comprise the consolidated balance sheets as of June 30, 2020 and 2019, 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 Consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2020 and 2019, 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.



*Emphasis of Matter*

As discussed in note 1(v) to the consolidated financial statements, in 2020, the University adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, as amended. Our opinion is not modified with respect to this matter.

KPMG LLP

Baltimore, Maryland  
September 30, 2020

**THE JOHNS HOPKINS UNIVERSITY**

Consolidated Balance Sheets

June 30, 2020 and June 30, 2019

(In thousands)

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 531,954	347,007
Operating investments	<u>1,820,418</u>	<u>1,225,501</u>
Cash, cash equivalents and operating investments	2,352,372	1,572,508
Sponsored research accounts receivable, net	447,125	489,650
Accounts receivable, net	244,240	228,858
Contributions receivable, net	269,688	359,545
Prepaid expenses and deferred charges	78,756	77,060
Student loans receivable, net	23,191	27,021
Investments	7,643,728	7,190,782
Property and equipment, net	2,623,506	2,194,975
Operating lease right-of-use assets, net	226,328	—
Investment in and loans to affiliates	323,381	303,984
Other assets	307,867	292,605
Interests in trusts and endowment funds held by others	<u>116,032</u>	<u>113,426</u>
Total assets	\$ <u><u>14,656,214</u></u>	<u><u>12,850,414</u></u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 699,801	685,413
Sponsored research deferred revenues	344,649	347,350
Other deferred revenues	123,432	135,875
Debt	1,743,522	1,254,153
Operating lease liabilities	246,871	—
Other long-term liabilities	395,090	343,547
Pension and postretirement obligations	306,574	184,612
Liabilities under split-interest agreements	81,292	79,375
Endowment and similar funds held for others	<u>614,149</u>	<u>623,028</u>
Total liabilities	<u>4,555,380</u>	<u>3,653,353</u>
Net assets:		
Without donor restrictions	3,033,930	3,077,677
With donor restrictions	<u>7,066,904</u>	<u>6,119,384</u>
Total net assets	<u>10,100,834</u>	<u>9,197,061</u>
Total liabilities and net assets	\$ <u><u>14,656,214</u></u>	<u><u>12,850,414</u></u>

See accompanying notes to consolidated financial statements.

**THE JOHNS HOPKINS UNIVERSITY**

Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Changes in net assets without donor restrictions:		
Operating revenues:		
Tuition and fees, net of financial aid of \$417,091 and \$363,694, respectively	\$ 703,360	690,465
Grants, contracts, and similar agreements	1,403,326	1,511,335
Facilities and administrative cost recoveries	366,779	372,478
Applied Physics Laboratory contract revenues	<u>1,844,310</u>	<u>1,686,547</u>
Sponsored research revenues	<u>3,614,415</u>	<u>3,570,360</u>
Contributions	124,988	123,341
Net assets released from restrictions	<u>99,218</u>	<u>118,411</u>
Contributions and donor support	224,206	241,752
Clinical services, net	705,107	745,197
Reimbursements from affiliated institutions	656,918	598,457
Other revenues	130,673	192,343
Net endowment payout used to support operations	256,408	196,770
Auxiliary enterprises	92,259	106,189
Maryland State aid	29,066	27,253
Investment return	<u>58,166</u>	<u>41,331</u>
Total operating revenues	<u>6,470,578</u>	<u>6,410,117</u>
Operating expenses:		
Compensation	3,075,083	2,909,517
Benefits	<u>944,861</u>	<u>913,782</u>
Compensation and benefits	4,019,944	3,823,299
Subcontractors and subrecipients	503,182	518,102
Contractual services	907,652	905,995
Supplies, materials, and other	583,399	599,214
Depreciation	220,926	223,263
Travel	116,027	162,989
Interest	<u>44,789</u>	<u>44,518</u>
Total operating expenses	<u>6,395,919</u>	<u>6,277,380</u>
Excess of operating revenues over operating expenses	<u>74,659</u>	<u>132,737</u>

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Consolidated Statements of Activities

Years ended June 30, 2020 and 2019

(In thousands)

	<b>2020</b>	<b>2019</b>
Other changes in net assets without donor restrictions:		
Investment return (less than) in excess of endowment payout	\$ (5,908)	21,617
Change in benefit plans funded status, excluding benefit cost	(126,094)	(88,659)
Other net periodic benefit cost	2,281	5,908
Change in fair value of interest rate swap agreements	(10,918)	(7,832)
Other, net	21,353	22,342
Net assets released from restrictions	880	2,255
Other changes in net assets without donor restrictions	(118,406)	(44,369)
Total changes in net assets without donor restrictions	(43,747)	88,368
Changes in net assets with donor restrictions:		
Contributions	1,057,242	2,091,797
Investment return less than endowment payout	(9,624)	(41,894)
Net assets released from restrictions	(100,098)	(120,666)
Total changes in net assets with donor restrictions	947,520	1,929,237
Total change in net assets	903,773	2,017,605
Net assets at beginning of year	9,197,061	7,179,456
Net assets at end of year	\$ 10,100,834	9,197,061

See accompanying notes to consolidated financial statements.

**THE JOHNS HOPKINS UNIVERSITY**  
Consolidated Statements of Cash Flows  
Years ended June 30, 2020 and 2019  
(In thousands)

	<b>2020</b>	<b>2019</b>
Cash flows from operating activities:		
Changes in net assets	\$ 903,773	2,017,605
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation, amortization, and other adjustments	205,664	220,664
Noncash gift of investments	(377,977)	(1,885,023)
Contributions restricted for long-term investment	(616,688)	(227,248)
Net realized and unrealized gains from investments	(236,532)	(148,076)
Net unrealized losses from swaps	10,918	7,832
Earnings from joint ventures	(13,965)	(6,203)
Change in benefit plans funded status	121,962	83,895
Changes in operating assets and liabilities:		
Sponsored research and accounts receivable, net	27,143	(75,329)
Contributions receivable, net	89,856	140,605
Prepaid expenses and deferred charges	(1,696)	(13,910)
Operating lease right-of-use assets, net of operating lease liabilities	20,543	—
Other assets	(11,023)	(54,878)
Accounts payable and accrued expenses	9,178	41,846
Sponsored research, other deferred revenues and other long-term liabilities	21,242	39,293
Interests and liabilities related to trusts and split-interest agreements	6,321	4,473
Net cash provided by operating activities	<u>158,719</u>	<u>145,546</u>
Cash flows from investing activities:		
Purchases of investments	(5,621,926)	(4,477,898)
Proceeds from sales and maturities of investments	5,198,946	4,483,558
Purchases of property and equipment	(646,096)	(285,260)
Repayments of student loans, net of disbursements	3,831	3,813
Loans to affiliates	(8,720)	(1,639)
Repayments of loans to affiliates	7,063	7,614
Capital contributions to joint ventures, net of dividends	(3,775)	(3,177)
Change in endowment and similar funds held for others	(26,264)	(25,735)
Net cash used in investing activities	<u>(1,096,941)</u>	<u>(298,724)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	616,688	227,248
Proceeds from borrowings	682,047	125,000
Early retirement and refinancings of debt	(153,150)	(50,000)
Scheduled debt and finance lease payments	(22,416)	(64,419)
Net cash provided by financing activities	<u>1,123,169</u>	<u>237,829</u>
Net increase in cash and cash equivalents	184,947	84,651
Cash and cash equivalents at beginning of year	<u>347,007</u>	<u>262,356</u>
Cash and cash equivalents at end of year	<u>\$ 531,954</u>	<u>347,007</u>

See accompanying notes to consolidated financial statements.

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**(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 27,000 students, including 15,000 full-time students and 12,000 part-time students, and on a net basis provided approximately 11% of the University's operating revenues in both fiscal 2020 and 2019. Approximately 62% of the full-time students are graduate level (including postdoctoral) and 38% 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 2,100 government and private sponsors. Sponsored research revenues provided approximately 56% of the University's operating revenues in both fiscal years 2020 and 2019. Approximately 87% of those revenues were from departments and agencies of the United States government in both fiscal 2020 and 2019. 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 11% of the University's operating revenues in fiscal 2020 and 12% of the University's operating revenue in fiscal 2019. 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), 63019 Holdings, LLC, Johns Hopkins University Press, and certain other controlled affiliated organizations, including Jhpiego Corporation and Peabody Institute of the City of Baltimore (collectively, the consolidated financial statements). All significant inter-entity activities and balances are eliminated for financial reporting purposes. Investments in organizations that the University does not control, including Dome Corporation, FSK Land Corporation, Johns Hopkins Healthcare LLC, Johns Hopkins Home Care Group, Inc., Johns Hopkins Medical Institutions Utilities LLC (JHMI Utilities LLC), Johns Hopkins Medicine International LLC, and other affiliated entities, are accounted for using the equity method.

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported



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amounts of assets and liabilities and disclosures of contingencies at the dates of the consolidated financial statements and revenues and expenses recognized during the reporting periods. Actual results could differ from those estimates.

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

- *Without donor restrictions* – Net assets that are not subject to donor-imposed stipulations.
- *With donor restrictions* – Net assets subject to donor-imposed stipulations that are more specific than broad limits resulting from a not-for-profit's nature, environment in which it operates, and incorporating documents. Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used only after a specified date, for particular programs or services, or to acquire buildings or equipment. Other donors impose restrictions that are perpetual in nature, for example, donor-restricted endowment funds stipulating that resources be maintained in perpetuity. For such funds held by the University, the Maryland-enacted version of the Uniform Prudent Management of Investment Funds (UPMIFA) extends those restrictions to related investment returns and to other enhancements (diminishments) for general and specific purposes, primarily divisional and departmental support and student financial aid.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Under Maryland law, appreciation on donor-restricted endowments is classified as net assets with donor restrictions 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 net assets with donor restrictions to net assets without donor restrictions. 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. For purposes of the consolidated statements of cash flows, investments with original 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. Cash and cash equivalents held for endowment and long-term investment purposes are classified as investments.

**(d) Contributions**

Contributions, including unconditional promises to give, are recognized at fair value in the appropriate category of net assets in the period received, except that contributions that impose restrictions met in the same fiscal year are included in net assets without donor restrictions. Unconditional promises to

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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 (see note 1(f)). Amortization of the discount is included in contributions revenue. Conditional promises to give are not recognized until one or more of the barriers have been overcome for the University to be entitled to the assets transferred and a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets has expired. 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 net asset values (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, 2020 and 2019, the University had no plans or intentions to sell investments at amounts different from NAV. The NAVs, which are estimated and reported by the general partners or investment managers, are reviewed and evaluated by the University's investment office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant. Investments in certain real estate assets are recorded at fair value based upon independent third-party appraisals.

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

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

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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 are categorized into a fair value hierarchy. As described further in the notes to the consolidated financial statements, such assets include investments, deferred compensation assets, and interests in trusts and endowment funds held by others, and such liabilities include interest rate swaps, obligations under deferred compensation arrangements, and endowment and similar funds held for others. 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. As of June 30, 2020 and 2019, assets under the University's charitable gift annuity agreements were \$58,944 and \$64,025, respectively, and are classified in investments, and liabilities were \$40,750 and \$34,810, respectively, and are classified in liabilities under split-interest agreements.

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**(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 or lease term, if shorter. 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, Net of Financial Aid**

Student tuition and fees are recorded as revenue as services are provided during the year the related academic services are rendered which generally aligns with the University's fiscal year. Tuition and fees received in advance of services provided are reported in other deferred revenues and amounted to \$78,171 and \$97,082 at June 30, 2020 and 2019, respectively. The University provides institutional financial aid to eligible students, generally in an "aid package" that may also include 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 institutional 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.

The composition of student tuition and fees, net revenue was as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Undergraduate programs	\$ 179,152	174,290
Graduate programs	450,369	440,720
Other programs	<u>73,839</u>	<u>75,455</u>
	<u>\$ 703,360</u>	<u>690,465</u>

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Other programs includes the University's Center for Talented Youth (a gifted education program for school-age children), continuing medical education, health services, and various nondegree programs.

**(j) Grants, Contracts, and Similar Agreements**

Grants, contracts, and similar agreements are funded by various federal and private sponsors. The vast majority of such agreements are considered nonexchange transactions and restricted by sponsors for specific research or other program purposes. Revenues are recognized within net assets without donor restrictions as conditions are met, (i.e., generally as qualifying 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. Payments received from sponsors in advance of conditions being met are reported as sponsored research deferred revenues. Of the \$344,649 in sponsored deferred revenues as of June 30, 2020, \$283,068 relates to nonexchange contracts and \$61,581 relates to exchange contracts.

Approximately 73% and 78% of receivables related to reimbursement of costs incurred under grants and contracts as of June 30, 2020 and 2019, 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 as awards are subject to the availability of and annual appropriation of funds. The University estimates that conditional awards outstanding as of June 30, 2020 approximate or exceed its recent annual sponsored program activity.

**(k) Clinical Services, Net**

Clinical services revenues are recognized in the period in which services are rendered based on gross charges less negotiated fixed discounts (explicit price concessions) which include contractual adjustments specific to the third party payer contracts, less amounts for "implicit price concessions". Fixed discounts are generally determined based on regulatory authorities, determined by legislative statute (Medicare and Medicaid), or negotiated in the case of commercial payers. Implicit price concessions are estimated based on the historical collection experience using a portfolio approach as a practical expedient.

The composition of clinical services revenue by primary payer for the years ended June 30, 2020 and 2019 was as follows:

	<u>2020</u>		<u>2019</u>	
PPO/HMO	\$ 316,099	44.8 %	331,409	44.5
Medicare	136,505	19.4	139,092	18.7
Medicaid	67,084	9.5	72,236	9.7
Blue Cross/Blue Shield	56,280	8.0	59,810	8.0
Self Pay	59,581	8.4	58,132	7.8
All other clinical	69,558	9.9	84,518	11.3
	<u>\$ 705,107</u>	<u>100.0 %</u>	<u>745,197</u>	<u>100.0</u>

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**(l) *Affiliated Institutions***

The University has separate administrative agreements for the exchange of services with the Hospital and other medical and educational institutions. These agreements are executed on an annual basis based on negotiated rates and reimbursement of actual costs. Costs incurred by the University in providing services to these institutions and the related reimbursements are generally recognized as services are provided and 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. The carrying values of the funds are adjusted for earnings from and changes in the fair values of the investments and reduced for any 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. Student related activities included in auxiliary enterprises amounted to \$41,950 and \$56,211 in fiscal 2020 and 2019, respectively.

**(n) *Other Revenues***

Other revenues include revenues from royalties and patents, medical and professional reimbursements, joint ventures, and other miscellaneous activities. Such revenues are recognized when goods or services are provided to customers.

**(o) *Insurance and Self 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 of \$88,310 and \$75,573 as of June 30, 2020 and 2019, respectively, are reported on the consolidated balance sheets as other assets. Accrued self-insurance liabilities, including medical malpractice insurance, aggregated \$119,283 and \$82,026 as of June 30, 2020 and 2019, respectively.

**(p) *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,

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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 \$14,856 and \$22,244 as of June 30, 2020 and 2019, respectively.

**(g) 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 consolidated financial statements.

**(r) Leases**

The University conducts certain operations in third-party and related party facilities and determines if an arrangement contains a lease at the inception of a contract. Right-of-use assets, net represents the University's right to use an underlying asset for the lease term and lease liabilities represent the University's obligation to make lease payments arising from the lease. Operating and finance lease right-of-use assets and related lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the estimated interest rate for borrowing over a term similar to that of the lease payments available at commencement of the lease. The value of an option to extend a lease is reflected to the extent it is reasonably certain management will exercise that option.

Certain leases require payment for taxes, insurance, and maintenance. These variable lease payments are recognized in contractual services in the consolidated statements of activities, but are not included in the right-of-use asset or liability balances in the consolidated balance sheets.

Operating leases are included in operating right-of use assets, net and operating lease liabilities in the consolidated balance sheet. Finance leases are included in property and equipment, net and debt in the consolidated balance sheet. Lease expense for lease payments is recognized on a straight line basis over the lease term. Interest expense is recognized as a component of the lease payments for finance leases.

Rental income arising from operating leases as a lessor is included in operating revenue in other revenues in the consolidated statement of activities.

**(s) Derivative Financial Instruments**

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

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**(t) *Deferred Compensation Plans***

The University maintains deferred compensation plans for certain employees. As of June 30, 2020 and 2019, 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 the employees and are included in other long-term liabilities. The assets and liabilities of the deferred compensation plans are categorized in Level 1 of the fair value hierarchy. The fair value of deferred compensation plan assets as of June 30, 2020 and 2019 is \$139,091 and \$134,852, respectively.

**(u) *Statement of Cash Flows Supplemental Information***

Property and equipment additions included in accounts payable and accrued expenses increased \$5,210 and \$6,885 as of June 30, 2020 and 2019, respectively.

**(v) *Recently Adopted Accounting Standards***

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, as amended, which requires, among other things, a lessee to recognize a right-of-use asset representing an entity's right to use the underlying asset for the lease term and a liability for lease payments on the balance sheet, regardless of classification of a lease as an operating or finance lease. As permitted by the ASU, for leases with a term of twelve months or less as a lessee, the University has elected not to recognize the lease assets and liabilities and account for the lease similar to existing guidance for operating leases. The University early-adopted the ASU effective July 1, 2019 using the modified retrospective method. The University elected the package of practical expedients available under the transition provisions of the ASU, which allows the carry forward of historical conclusions on whether an existing contract is or contains a lease, the classification of existing leases and the treatment of indirect costs. The University's adoption of the ASU had significant impacts relating to the recognition of lease liabilities and right-of-use assets for operating leases greater than one year on the consolidated balance sheet.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (A Consensus of the Emerging Issues Task Force)*, which adds or clarifies certain guidance on the classification of certain cash flow items. The University adopted the provisions of this standard in fiscal 2020 and there was no material impact on the consolidated statements of cash flows.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The University's adoption of this ASU in fiscal 2020 did not impact the University's consolidated financial statements other than additional disclosure about the nature of certain cash and cash equivalents held by the University.



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**(w) Reclassifications**

Certain 2019 amounts have been reclassified in order to conform to the 2020 expense information presentation. The University reclassified \$52,848 from supplies, materials, and other to contractual services.

**(2) Applied Physics Laboratory**

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

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

The University works under an omnibus contract with the U.S. Navy. The most recent contract provides for a five-year initial term ending in September 2017, plus a five-year renewal option, which was exercised in February 2017 and subsequently amended in May 2019 to increase the aggregate purchase limit to \$7,117,558 over the ten-year contract period ending September 2022.

Approximately 71% and 73% of APL's revenues in both fiscal years 2020 and 2019 were from the Department of Defense (primarily under the Navy Contract) and 21% and 18% were from the National Aeronautics and Space Administration, respectively. Contract work includes evaluation and design of various types of missile systems and command, control, and communication systems, assessment of submarine technologies, design of space systems for precision tracking, location and navigation, and conduct of space experiments. The contracts define costs for which reimbursements may be received and provide a management fee to the University. The Navy Contract requires that a portion of the fees earned under the Navy Contract be retained and used for various purposes, including, among other things, working capital, capital projects, and reserves.

APL principally provides services under cost plus fixed-fee contracts for which revenue is recognized in the period that costs are incurred. Contract accounts receivable are recorded at invoiced amounts. The allowance for doubtful accounts is estimated based on historical trends of past-due accounts, and specific identification and review of past-due accounts.

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Revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services (i.e., the transaction price).

Contracts awarded by federal and other sponsors, which are considered exchange transactions, are recognized as revenue as performance obligations are satisfied, which is generally as qualifying expenditures are incurred. Total revenue from contracts was \$1,815,791 and \$1,662,619 for the years ended June 30, 2020 and 2019, respectively.

Total revenue from nonexchange transactions was \$28,519 and \$23,929 for the years ended June 30, 2020 and 2019, respectively.

**(3) Accounts Receivable**

Accounts receivable, net are summarized as follows as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Affiliated institutions, primarily the Hospital (note 11)	\$ 93,505	56,124
Students	25,900	23,895
Others	<u>54,255</u>	<u>64,307</u>
Total, net of allowances of \$10,018 in 2020 and \$8,498 in 2019	173,660	144,326
Receivables for clinical professional fees, net of explicit and implicit price concessions of \$133,181 in 2020 and \$155,736 in 2019	<u>70,580</u>	<u>84,532</u>
	<u>\$ 244,240</u>	<u>228,858</u>

The mix of gross accounts receivable for clinical professional fees from patients and third-party payors consisted of the following as of June 30, 2020 and 2019: commercial third parties 39% and 44% respectively; Medicare 20% for both years; Medicaid 17% and 14%, respectively; Blue Cross/Blue Shield 6% and 5%, respectively; and patients 18% and 17%, respectively.

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**(4) Contributions Receivable**

Contributions receivable, net are summarized as follows as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Unconditional promises scheduled to be collected in:		
Less than one year	\$ 79,535	202,776
One year to five years	179,010	175,124
Over five years	35,950	13,925
	294,495	391,825
Less unamortized discount (interest rates ranging from 0.3% to 5.1%) and allowances for uncollectible contributions	24,807	32,280
	<b>\$ 269,688</b>	<b>359,545</b>

As of June 30, 2020 and 2019, 53% and 62%, respectively, of the gross contributions receivable were due from ten donors. Approximately 78% and 90% of contribution revenues for fiscal 2020 and 2019, respectively, were from ten donors. As of June 30, 2020, the University had also been informed of bequest intentions and conditional promises to give aggregating in excess of \$1,600,000 which have not been recognized as assets or revenues. Once recognized, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Operating investments	\$ 1,820,418	1,225,501
Investments	<u>7,643,728</u>	<u>7,190,782</u>
	<u>9,464,146</u>	<u>8,416,283</u>
Cash and cash equivalents	142,438	301,847
United States government and agency obligations	1,809,620	1,253,009
Debt securities	431,771	375,421
United States equities	1,381,650	1,107,571
International equities	599,236	801,319
Private equity and venture capital	1,411,264	1,240,850
Real estate	556,008	543,953
Natural resources	421,382	534,966
Marketable alternatives	<u>2,710,777</u>	<u>2,257,347</u>
	<u>\$ 9,464,146</u>	<u>8,416,283</u>

The following table summarizes the University's investments as of June 30, 2020 and 2019 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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>
United States equities	\$ 643,346	213,266	23,256	24,200	4% Monthly 20% Quarterly 22% Annually	30 to 90 days
International equities	450,509	472,683	2,906	9,800	54% 2- to 5-Year 54% Monthly 17% Quarterly 20% Annually 9% 3- to 5-Year	6 to 365 days
Private equity and venture capital	1,346,542	1,197,873	605,888	639,226	N/A	N/A
Real estate	458,529	445,655	256,993	287,827	N/A	N/A
Natural resources	389,324	482,075	100,962	120,433	N/A	N/A
Marketable alternatives	<u>2,710,777</u>	<u>2,257,347</u>	<u>272,005</u>	<u>221,199</u>	See chart below	5 to 120 days <sup>(1)</sup>
	<u>\$ 5,999,027</u>	<u>5,068,899</u>	<u>1,262,010</u>	<u>1,302,685</u>		

<sup>(1)</sup> Investments that are not redeemable total \$241,725 and \$222,744 as of June 30, 2020 and 2019, respectively.

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Quarterly redemptions	\$ 542,322	682,513
Annual redemptions	507,936	506,839
Quarterly or annually over 1- to 3-year period	1,022,732	558,851
Rolling 3- to 5-year redemptions	396,062	286,400
Drawdown funds over 15-year period	241,725	222,744
	<u>\$ 2,710,777</u>	<u>2,257,347</u>

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

**(a) United States Equities**

This includes commingled funds that invest in publicly traded common stock of domestic companies. Funds offer redemptions monthly, quarterly, annually, or over the course of 2 to 5 years, with various notice requirements ranging from 30 to 90 days.

**(b) International Equities**

This includes commingled funds that invest in publicly traded common stock of developed and emerging market companies. Funds offer redemptions monthly, quarterly, annually, or over the course of 3 to 5 years, with various notice requirements ranging from 6 to 365 days.

**(c) 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 15 years to fully distribute these assets.

**(d) 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.

**(e) 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 these assets.

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**(f) 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 5 to 120 days. Drawdown funds are limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to fully distribute these drawdown funds over a 15-year period.

Investment return is classified in the consolidated statements of activities as follows for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Without donor restrictions:		
Operating, including endowment payout	\$ 314,574	238,101
Nonoperating	(5,908)	21,617
With donor restrictions	<u>(9,624)</u>	<u>(41,894)</u>
	<u>\$ 299,042</u>	<u>217,824</u>

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**(6) Fair Value Measurements**

The following table presents investments that are measured at fair value on a recurring basis as of June 30, 2020:

	Fair value as of June 30, 2020	Level 1	Level 2	Level 3	Funds at NAV
Operating investments:					
United States government and agency obligations	\$ 1,410,682	1,410,682	—	—	—
Debt securities	409,736	220,584	189,152	—	—
Total operating investments	<u>1,820,418</u>	<u>1,631,266</u>	<u>189,152</u>	<u>—</u>	<u>—</u>
Investments, at fair value:					
Cash and cash equivalents	142,438	142,438	—	—	—
United States government and agency obligations	398,938	375,601	23,337	—	—
Debt securities	22,035	17,967	828	3,240	—
United States equities	1,381,650	737,966	6	332	643,346
International equities	599,236	148,727	—	—	450,509
Private equity and venture capital	1,411,264	—	20,990	43,732	1,346,542
Real estate	556,008	19,179	—	78,300	458,529
Natural resources	421,382	6,121	—	25,937	389,324
Marketable alternatives	2,710,777	—	—	—	2,710,777
Total investments, at fair value	<u>7,643,728</u>	<u>1,447,999</u>	<u>45,161</u>	<u>151,541</u>	<u>5,999,027</u>
Total investments	<u>\$ 9,464,146</u>	<u>3,079,265</u>	<u>234,313</u>	<u>151,541</u>	<u>5,999,027</u>

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The following table presents investments that are measured at fair value on a recurring basis as of June 30, 2019:

	Fair value as of June 30, 2019	Level 1	Level 2	Level 3	Funds at NAV
Operating investments:					
United States government and agency obligations	\$ 872,208	872,208	—	—	—
Debt securities	353,293	182,249	171,044	—	—
Total operating investments	<u>1,225,501</u>	<u>1,054,457</u>	<u>171,044</u>	<u>—</u>	<u>—</u>
Investments, at fair value:					
Cash and cash equivalents	301,847	301,847	—	—	—
United States government and agency obligations	380,801	380,801	—	—	—
Debt securities	22,128	16,898	2,222	3,008	—
United States equities	1,107,571	894,305	—	—	213,266
International equities	801,319	328,636	—	—	472,683
Private equity and venture capital	1,240,850	—	—	42,977	1,197,873
Real estate	543,953	19,998	—	78,300	445,655
Natural resources	534,966	14,596	—	38,295	482,075
Marketable alternatives	2,257,347	—	—	—	2,257,347
Total investments, at fair value	<u>7,190,782</u>	<u>1,957,081</u>	<u>2,222</u>	<u>162,580</u>	<u>5,068,899</u>
Total investments	<u>\$ 8,416,283</u>	<u>3,011,538</u>	<u>173,266</u>	<u>162,580</u>	<u>5,068,899</u>

The methods and assumptions used to estimate the fair value of investments are defined in note 1(f).



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The following table presents the University's activity for Level 3 investments measured at fair value on a recurring basis for the years ended June 30, 2020 and 2019:

	Debt securities	U.S. equities	Private equity and venture capital	Real estate	Natural resources	Total
Balance as of June 30, 2018	\$ —	—	—	124,315	—	124,315
Net realized and unrealized losses	9	—	—	(45,700)	—	(45,691)
Sales and distributions	—	—	—	(315)	—	(315)
Purchases and contributions	2,999	—	42,977	—	38,295	84,271
Balance as of June 30, 2019	3,008	—	42,977	78,300	38,295	162,580
Transfers between levels	100	—	(9,611)	—	—	(9,511)
Net realized and unrealized loss	(10)	(1)	645	—	(10,765)	(10,131)
Sales and distributions	—	—	(1,548)	—	(1,593)	(3,141)
Purchases and contributions	142	333	11,269	—	—	11,744
Balance as of June 30, 2020	\$ 3,240	332	43,732	78,300	25,937	151,541

For the year ended June 30, 2019, the University did not have any transfers between fair value levels. For the year ended June 30, 2020 private equity assets totaling \$7,392 and \$2,219 moved from Level 3 to Level 2 and NAV, respectively. Debt security assets moved from Level 2 to Level 3. Transfers resulted from changes in the inputs used to value the investments.

**(7) Property and Equipment**

Property and equipment, net, are summarized as follows as of June 30, 2020 and 2019:

	2020	2019	Range of useful lives
Land	\$ 116,863	116,825	N/A
Land improvements	113,552	113,199	15 years
Buildings and leasehold improvements	3,534,434	3,449,885	10–40 years
Equipment	1,089,861	1,062,860	7–15 years
Capitalized software costs	131,055	128,035	3–10 years
Library collections	364,193	347,330	25 years
Construction in progress	690,674	217,109	N/A
	6,040,632	5,435,243	
Less accumulated depreciation and amortization	3,417,126	3,240,268	
	\$ 2,623,506	2,194,975	

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**(8) Debt**

Debt is summarized as follows as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Bonds payable, net	\$ 1,132,209	843,018
Notes payable – taxable	271,232	280,864
Commercial paper revenue notes – tax-exempt	67,169	67,169
Commercial paper revenue notes – taxable	114,000	—
Line of credit advances	100,000	—
Capital lease obligations (note 15)	—	63,102
Finance lease obligations (note 15)	58,912	—
	<u>\$ 1,743,522</u>	<u>1,254,153</u>

**(a) Bonds Payable**

Bonds payable were 1) issued by the Maryland Health and Higher Educational Facilities Authority (MHHEFA) or 2) taxable bonds issued directly, and consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Revenue Bonds Series 2005A, variable effective rate (0.11%), due July 2036	\$ 69,265	69,265
Revenue Bonds Series 2012A, 4.00% to 5.00%, due July 2041	—	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	91,030	99,625
Taxable Bonds 2015 Series A, 3.75%, due July 2045	150,000	150,000
Taxable Bonds 2020 Series A, 1.97% to 2.81%, due January 2060	470,000	—
Subtotal	1,135,295	827,040
Premium and discount, net	2,417	20,495
Debt issuance cost, net	(5,503)	(4,517)
	<u>\$ 1,132,209</u>	<u>843,018</u>

The bonds payable outstanding as of June 30, 2020 and 2019 are unsecured general obligations of the University. The loan agreements generally provide for semiannual payments of interest.

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In March 2020, the University issued \$470,000 of 2020 Series A fixed rate bonds. The 2020 Series A Bonds are subject to redemption prior to final maturity. The Bonds provide for a \$100,000 principal repayment in 2030 and annual payments of \$92,500 in 2057 through 2060. Proceeds from the 2020 Series A were used 1) to refund all of the outstanding Revenue Bonds Series 2012A, 2) for financing and refinancing of certain capital projects, and 3) to pay costs of issuance of the Bonds. As a result of this refunding, the University recognized a loss of \$966 in fiscal 2020, which includes the write-off of unamortized original issue premium and bond issuance costs associated with the Series 2012A Bonds.

**(b) Notes Payable – Taxable**

Notes payable – taxable consist of the following as of June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Note due December 2019	\$ —	7,907
Note, 2.74%, due November 2023	25,000	25,000
Note, 2.89%, due November 2024	23,030	24,030
Note, 2.90%, due November 2024	23,202	23,927
Note, 2.94%, due November 2027	25,000	25,000
Note, 3.83%, due October 2028	25,000	25,000
Note, 3.92%, due November 2028	50,000	50,000
Notes, 4.16%, due May 2048	50,000	50,000
Note, 4.50%, due November 2049	50,000	50,000
	\$ 271,232	280,864

The note due in December 2019 had a fixed rate of 8.88% and was secured by certain of the University's property. The note was retired in December 2019.

The notes due November 2023 through November 2049 are unsecured general obligations of the University.

**(c) Commercial Paper**

Under the commercial paper program, the University may have commercial paper outstanding of up to \$400,000. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from the date of issue. The notes outstanding as of June 30, 2020 bear interest at a weighted average rate of 0.16%.

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 \$51,631 in 2020 and \$51,551 in 2019, of which \$5,610 in 2020 and \$4,114 in 2019 were capitalized.

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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>Amount</u>	<u>Maturity</u>	<u>Purpose</u>
\$	100,000	March 2021	Revolving line of credit
	100,000	November 2020	Standby liquidity agreement
	50,000	December 2025	Standby liquidity agreement
	50,000	July 2022	Line of credit
	100,000	March 2023	Line of credit
	50,000	September 2023	Line of credit

The University may borrow up to \$100,000 under a revolving line of credit designated for working capital purposes at APL. 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 on the revolving line of credit as of June 30, 2020 and 2019.

To support liquidity under the bond and commercial paper revenue notes programs, the University has two 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 standby credit facilities during fiscal 2020 and 2019.

Advances aggregating \$100,000 were drawn on the three lines of credit for liquidity purposes in June 2020.

**(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 as of June 30, 2020:

<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, 0.13% as of June 30, 2020
July 2007	6,645	July 2027	3.45	67.0% of 1-month LIBOR, 0.12% as of June 30, 2020
July 2008	14,130	July 2020	3.43	67.0% of 1-month LIBOR, 0.12% as of June 30, 2020
Total	<u>\$ 90,040</u>			

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, 2020 and 2019 was a liability of \$34,889 and \$23,971, respectively, excluding accrued interest for the swap due July 2036, 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 \$10,918 and \$7,832 in fiscal 2020 and 2019, respectively.

The University is required to post collateral under these agreements when certain thresholds are exceeded. As of June 30, 2020, the required collateral was \$9,900, which is included in cash and cash equivalents. As of June 30, 2019, these thresholds were met and no collateral was posted.

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**(g) Annual Principal Payments**

The following table summarizes the aggregate annual maturities of bonds payable, notes payable, the maturities of specific tax-exempt commercial paper revenue note tranches, as well as taxable commercial paper and line of credit advances issued for liquidity purposes, for the five fiscal years subsequent to June 30, 2020:

<u>Fiscal year</u>	<u>Bonds payable</u>	<u>Notes payable</u>	<u>Commercial paper notes</u>	<u>Line advances</u>	<u>Total</u>
2021	\$ 8,590	2,658	114,000	—	125,248
2022	8,595	2,826	—	—	11,421
2023	8,595	3,823	—	50,000	62,418
2024	—	30,567	7,310	50,000	87,877
2025	—	43,093	3,244	—	46,337
Thereafter	1,109,515	188,265	56,615	—	1,354,395
	<u>\$ 1,135,295</u>	<u>271,232</u>	<u>181,169</u>	<u>100,000</u>	<u>1,687,696</u>

Due to requirements to pay the trustee in advance of the payment due date, scheduled maturities in the table above are reflected in the fiscal year that they will be paid to the trustee.

**(9) Net Assets**

Net assets without donor restrictions consists of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net investment in plant	\$ 1,093,984	940,822
Board designated endowments	969,640	973,320
Undesignated	970,306	1,163,535
	<u>\$ 3,033,930</u>	<u>3,077,677</u>

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Net assets with donor restrictions consists of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Donor-restricted endowment funds	\$ 5,780,452	5,302,619
Contributions receivable for endowment	70,083	118,466
Contributions receivable for operating	154,129	174,237
Contributions restricted for facilities	530,077	116,326
Land subject to time and purpose restrictions	26,300	26,300
Perpetual trusts for scholarship and program support	64,838	61,157
Other contributions, including annuities and other trusts	441,025	320,279
	<u>\$ 7,066,904</u>	<u>6,119,384</u>

Other contributions, including annuities and other trusts are restricted for faculty support, research, and program support.

**(10) University Endowment**

The University's endowment consists of approximately 4,300 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 net assets with donor restrictions (a) the original value of gifts donated, which are donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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. At times, the fair value of individual donor restricted endowment funds may be in an underwater position (fall below historical book value) and are reported in net assets with donor restrictions. With respect to underwater endowments, the spending occurs only to the extent that the fair value of the endowment fund is 75% of historical book value.

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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, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Investments by type of fund:			
Donor-restricted endowments:			
Historical gift value	\$ —	5,039,142	5,039,142
Appreciation	—	741,310	741,310
Board-designated endowments	<u>969,640</u>	<u>—</u>	<u>969,640</u>
Total endowment net assets	<u>\$ 969,640</u>	<u>5,780,452</u>	<u>6,750,092</u>

Endowment net assets consist of the following as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Investments by type of fund:			
Donor-restricted endowments:			
Historical gift value	\$ —	4,483,000	4,483,000
Appreciation	—	819,619	819,619
Board-designated endowments	<u>973,320</u>	<u>—</u>	<u>973,320</u>
Total endowment net assets	<u>\$ 973,320</u>	<u>5,302,619</u>	<u>6,275,939</u>

As of June 30, 2020 and 2019, donor-restricted endowments with original gift values of \$2,537,444 and \$244,503 were underwater by \$19,683 and \$1,077, respectively. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.



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Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2018	\$ 958,270	3,232,250	4,190,520
Investment return	41,413	144,934	186,347
Contributions and designations	18,634	2,077,208	2,095,842
Appropriation for expenditure	<u>(44,997)</u>	<u>(151,773)</u>	<u>(196,770)</u>
Endowment net assets, June 30, 2019	973,320	5,302,619	6,275,939
Investment return	28,197	196,235	224,432
Contributions and designations	13,788	560,245	574,033
Appropriation for expenditure	<u>(45,665)</u>	<u>(278,647)</u>	<u>(324,312)</u>
Endowment net assets, June 30, 2020	<u>\$ 969,640</u>	<u>5,780,452</u>	<u>6,750,092</u>

Appropriation for expenditure for the year end June 30, 2020 of \$278,647 includes \$67,904 not used in current year operations but is intended for future use.

Endowments are to be utilized for the following purposes as of June 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Faculty support	\$ 291,530	2,118,623	2,410,153
Scholarship support	167,025	2,639,849	2,806,874
Program support	393,218	469,721	862,939
Research	<u>117,867</u>	<u>552,259</u>	<u>670,126</u>
	<u>\$ 969,640</u>	<u>5,780,452</u>	<u>6,750,092</u>

Endowments are to be utilized for the following purposes as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Faculty support	\$ 290,870	1,679,825	1,970,695
Scholarship support	168,052	2,631,509	2,799,561
Program support	394,430	458,734	853,164
Research	<u>119,968</u>	<u>532,551</u>	<u>652,519</u>
	<u>\$ 973,320</u>	<u>5,302,619</u>	<u>6,275,939</u>

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**(11) Affiliated Institutions**

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Johns Hopkins Health System	\$ 50,210	42,819
Johns Hopkins Hospital	357,808	323,490
Johns Hopkins Bayview Medical Center	84,370	81,260
Other Johns Hopkins entities	131,746	124,633
Other affiliated medical institutions	32,784	26,255
	\$ 656,918	598,457

**(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, 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 contractual 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). Charges to the Hospital under the JAA, related primarily to the provision of professional medical services from the University, aggregated \$238,466 in fiscal 2020 and \$229,354 in fiscal 2019. Charges to the University under the JAA, related primarily to contractual services, aggregated \$49,443 in fiscal 2020 and \$48,820 in fiscal 2019, 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. Charges to JHBMC under the JAA, related primarily to the provision of professional medical services from the University, aggregated \$78,550 in fiscal 2020 and \$75,874 in fiscal 2019.

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**(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 Endowment Investment Pool (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 \$496,651 and \$502,375 is included in endowment and similar funds held for others as of June 30, 2020 and 2019, respectively. The corresponding liability has a fair value measurement of Level 3. JHHEFI's assets represent approximately 9.6% of the combined investment pool of \$5,158,400 as of June 30, 2020.

**(e) *Jointly Owned Entities***

As of June 30, 2020 and 2019, 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 \$317,121 and \$297,274 as of June 30, 2020 and 2019, respectively. Equity in operating earnings of affiliates aggregated approximately \$16,097 in fiscal 2020 and \$7,613 in fiscal 2019.

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 2020 and 2019 were approximately \$30,420 and \$31,895, respectively. JHMI Utilities LLC has an agreement with the University to finance a portion of the costs of installation of an enterprise information technology system that provides integrated patient care information and service across JHM. The project has been successfully implemented with the total project cost at approximately \$294,800 as of June 30, 2020. 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 committed to funding up to \$36,800 of the project. As of June 30, 2020 and 2019, \$17,400 and \$19,500, respectively, was outstanding on the loan. In addition, the University has agreed to guarantee a pooled loan of up to \$14,100.

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.

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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, 2020 and 2019, respectively:

	2020		2019	
	Total	University interest	Total	University interest
Assets	\$ 1,383,730	617,251	1,298,710	588,185
Liabilities	865,622	383,637	832,480	372,761
Operating revenues	2,984,665	1,202,880	2,812,007	1,181,709
Operating expenses	2,913,204	1,186,783	2,787,401	1,174,096

**(12) Pension and Postretirement Benefit Plans**

The University has several benefit 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 benefit costs as earned. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Benefit plan expenses were \$266,463 in fiscal 2020 and \$249,164 in fiscal 2019, including \$240,874 and \$229,224, respectively, related to defined contribution plans. Of the total benefit expense, APL's defined contribution plan accounted for \$87,828 in fiscal 2020 and \$81,167 in fiscal 2019.

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.

Effective July 1, 2019, APL adopted an amendment to the postretirement medical plan to allow employees who were originally hired before January 1, 2012, had a break in service and returned after December 31, 2011 to be eligible for the medical subsidy. The plan change increased the accumulated postretirement benefit obligation by \$1,260 for the year ended June 30, 2020. Effective July 1, 2018, APL adopted an amendment to the postretirement medical plan for employees who retired after December 31, 2012. For those employees, the percentage of premium paid by APL would become a fixed dollar amount beginning in 2021 and it would be based on the premium rates of 2020. The plan change increased the accumulated postretirement benefit obligation by \$9,272 for the year ended June 30, 2019.

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

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provisions that may affect the University's postretirement benefit plans, and have been considered in the measurement of the postretirement benefit obligation.

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, 2020 and 2019 is summarized as follows:

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 788,729	691,268	268,019	245,014
Service cost	15,246	13,978	7,855	7,034
Interest cost	26,873	28,592	8,790	9,720
Participant contributions	—	—	11,492	10,718
Plan amendment	—	—	1,260	9,272
Actuarial loss	105,669	77,036	20,478	6,868
Benefits paid	(25,317)	(22,145)	(21,975)	(21,547)
Medicare subsidies received	—	—	831	940
Benefit obligation at end of year	<u>911,200</u>	<u>788,729</u>	<u>296,750</u>	<u>268,019</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	559,695	531,825	312,441	303,740
Actual return on plan assets	20,983	30,075	15,063	18,665
University contributions	25,267	19,940	—	—
Participant contributions	—	—	11,171	10,643
Benefits paid	(25,317)	(22,145)	(18,758)	(21,547)
Medicare subsidies received	—	—	831	940
Fair value of plan assets at end of year	<u>580,628</u>	<u>559,695</u>	<u>320,748</u>	<u>312,441</u>
Funded status recognized as pension and postretirement obligations, net	<u>\$ (330,572)</u>	<u>(229,034)</u>	<u>23,998</u>	<u>44,422</u>

The accumulated benefit obligation for the pension plan was \$880,527 and \$763,194 as of June 30, 2020 and 2019, respectively.

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The table below reflects the net pension and postretirement benefit cost reported in operating as benefits expense and nonoperating as other net periodic benefit cost for the years ended June 30, 2020 and 2019:

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating:				
Service cost	\$ 15,246	13,978	7,855	7,034
Total operating, included in benefits	15,246	13,978	7,855	7,034
Nonoperating:				
Interest cost on accumulated benefit obligation	26,873	28,592	8,790	9,720
Amortization of prior service (cost) credit	(167)	(167)	350	350
Expected return on plan assets	(31,759)	(31,944)	(21,428)	(20,994)
Amortization of actuarial loss (gain)	15,074	9,481	(14)	(946)
Total nonoperating	10,021	5,962	(12,302)	(11,870)
Total net pension and postretirement benefit cost (credit)	\$ <u>25,267</u>	<u>19,940</u>	<u>(4,447)</u>	<u>(4,836)</u>

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2020 and 2019:

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net loss for the year	\$ 116,445	78,906	23,632	9,199
New unrecognized prior service cost	—	—	1,260	9,272
Amortization of prior service credit (cost)	167	167	(350)	(350)
Amortization of net (loss) gain	(15,074)	(9,481)	14	946
Net loss recognized in nonoperating activities	\$ <u>101,538</u>	<u>69,592</u>	<u>24,556</u>	<u>19,067</u>

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The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in nonoperating activities during fiscal 2021:

	<u>Pension plan</u>	<u>Postretirement plans</u>
Net loss	\$ (25,890)	(136)
Prior service credit (cost) amortization	167	(505)
	<u>\$ (25,723)</u>	<u>(641)</u>

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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	2.66 %	3.50 %	2.54%-2.73%	3.42%-3.56%
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	5.90	6.30
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	3.50 %	4.18 %	3.42%-3.56%	4.14%-4.21%
Expected rate of return on plan assets	6.75	6.75	7.00	7.00
Rate of compensation increase	2.90	2.90	N/A	N/A
Rate of increase in healthcare costs	N/A	N/A	6.30	6.60

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.

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The rate of increase in healthcare costs was assumed to begin with an initial rate of 6.3% in 2020 and decrease to 4.5% in 2036 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, 2020 would have the following effects:

	<b>Increase</b>	<b>Decrease</b>
Total service and interest cost components	\$ 206	(187)
Postretirement benefit obligation	5,788	(5,160)

**(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, 2020 and 2019:

	2020			2019		
	Total	Level 1	Funds at NAV	Total	Level 1	Funds at NAV
Cash and cash equivalents \$	10,529	10,529	—	170	170	—
Fixed income securities	207,805	199,287	8,518	203,656	195,711	7,945
United States equities and international equities	312,631	281,266	31,365	275,814	275,814	—
Marketable alternatives	49,663	—	49,663	80,055	—	80,055
Total	\$ 580,628	491,082	89,546	559,695	471,695	88,000



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**(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, 2020 and 2019:

	2020			2019		
	Total	Level 1	Funds at NAV	Total	Level 1	Funds at NAV
Cash and cash equivalents \$	11,613	11,613	—	2,481	2,481	—
Accounts receivable - rebates earned	3,217	3,217	—	—	—	—
Fixed income securities	101,367	101,367	—	92,038	92,038	—
United States equities and international equities	182,256	165,457	16,799	175,372	175,372	—
Marketable alternatives	22,295	—	22,295	42,550	—	42,550
Total	\$ 320,748	281,654	39,094	312,441	269,891	42,550

The Plans have no unfunded commitments to fund managers as of June 30, 2020 and 2019.

The University's target asset allocations for the pension plan and the postretirement plans as of June 30, 2020 and 2019:

	Pension plan		Postretirement plans	
	2020	2019	2020	2019
Fixed income securities	30 %	30 %	35 %	35 %
United States equities and international equities	55	55	55	55
Real estate	5	5	—	—
Marketable alternatives	10	10	10	10
Total	100 %	100 %	100 %	100 %

**(d) Cash Flows**

The University expects to contribute \$34,120 to the pension plan in fiscal 2021.

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The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2020 and in aggregate for the five fiscal years thereafter are as follows:

Fiscal year	Pension plan	Postretirement plans	Medicare subsidies
2021	\$ 29,166	11,914	293
2022	30,958	12,643	301
2023	32,623	13,280	309
2024	34,330	13,901	316
2025	36,066	14,407	326
2026–2030	204,043	78,504	1,764

**(13) Functional Expense Information**

Operating expenses by nature and function are summarized as follows for the year ended June 30, 2020:

	2020 Programs							
	Instruction, research and clinical practice	APL	Student services	Auxiliaries	Libraries	Total programs	Institutional support	Total expenses
Compensation	\$ 1,881,398	853,216	61,196	19,168	13,920	2,828,898	246,185	3,075,083
Benefits	484,081	362,326	17,591	4,845	3,622	872,465	72,396	944,861
Subcontractors and subrecipients	278,760	224,422	—	—	—	503,182	—	503,182
Contractual services	592,729	69,384	43,033	37,950	7,811	750,907	156,745	907,652
Supplies, materials and other	350,157	158,029	8,998	30,762	8,290	556,236	27,163	583,399
Depreciation	94,879	62,758	4,471	8,222	16,491	186,821	34,105	220,926
Travel	83,072	23,590	2,991	385	281	110,319	5,708	116,027
Interest	30,276	—	1,239	2,795	832	35,142	9,647	44,789
Total	\$ 3,795,352	1,753,725	139,519	104,127	51,247	5,843,970	551,949	6,395,919

Operating expenses by nature and function are summarized as follows for the year ended June 30, 2019:

	2019 Programs							
	Instruction, research and clinical practice	APL	Student services	Auxiliaries	Libraries	Total programs	Institutional support	Total expenses
Compensation	\$ 1,826,521	761,393	56,958	17,993	15,931	2,678,796	230,721	2,909,517
Benefits	482,055	338,237	16,841	4,776	4,437	846,346	67,436	913,782
Subcontractors and subrecipients	330,044	188,058	—	—	—	518,102	—	518,102
Contractual services	570,924	68,111	40,067	37,154	7,836	724,092	181,903	905,995
Supplies, materials and other	355,292	160,748	11,610	28,931	8,289	564,870	34,344	599,214
Depreciation	96,544	63,125	4,760	8,123	15,917	188,469	34,794	223,263
Travel	119,636	29,767	4,710	498	396	155,007	7,982	162,989
Interest	29,992	92	1,252	2,721	805	34,862	9,656	44,518
Total	\$ 3,811,008	1,609,531	136,198	100,196	53,611	5,710,544	566,836	6,277,380

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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. Other net periodic benefit costs recorded in nonoperating expense were \$(2,281) and \$(5,908) for the years ended June 30, 2020 and 2019, respectively.

**(14) Liquidity and Availability**

The University regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

As of June 30, the following assets could readily be available within one year to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 531,954	347,007
Operating investments	1,126,073	1,001,292
Sponsored research accounts receivable, net	447,125	489,650
Accounts receivable, net	244,240	228,858
Contributions receivable, net	35,806	94,089
Approved endowment payout for upcoming fiscal year	343,646	326,650
Investments in and loans to affiliates	7,434	6,980
Payout from interests in trusts and endowment funds held for others	<u>4,267</u>	<u>5,317</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 2,740,545</u>	<u>2,499,843</u>

The University has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt securities, lines of credit, and a commercial paper facility.

The University's cash flows have seasonal variations during the year attributable to tuition billings, patient service billings and concentration of contributions received at calendar and fiscal year-end. Operating investments have been reduced for an estimate of expenditures that will occur on grants and gifts beyond one year, as well as, cash received for capital contributions. Principal and interest on student loans are not included as those amounts are used solely to make new loans and are, therefore, not available to meet current operating needs. Based on historical experience, only the portion of contributions receivable for operations expected to be received within one year is considered liquid. Investments in and loans to affiliates include only the loan principal payments due from affiliates in the next year.

**(15) Leases**

The University leases facilities used in its academic and research operations under long-term operating and finance leases, including certain facilities from the Hospital under a renewable one year lease. This lease provides for a rent equal to the cost to the Hospital for maintaining the facilities and has been renewed for the year ending June 30, 2021.

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For the year ended June 30, 2020, the components of lease expense are as follows:

	<b>2020</b>
Lease cost:	
Finance lease expense:	
Amortization of right-of-use assets	\$ 4,452
Interest on lease obligations	3,797
Operating lease expense	56,694
Variable lease expense	44,227
Short-term lease expense	4,657
Total lease expense	\$ 113,827
Other information:	
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	\$ 5,972
Weighted-average remaining lease term:	
Finance leases	8.74 yrs
Operating leases	6.79 yrs
Weighted-average discount rate:	
Finance leases	6.50 %
Operating leases	2.40

Payments due include options, where reasonably certain, to extend operating leases through fiscal year 2033 and are summarized below as of June 30, 2020:

	<b>Affiliates</b>	<b>Others</b>	<b>Total</b>
2021	\$ 14,428	37,005	51,433
2022	13,696	34,858	48,554
2023	9,621	28,978	38,599
2024	7,556	27,670	35,226
2025	6,719	18,452	25,171
After 2025	13,605	57,117	70,722
	65,625	204,080	269,705
Less amounts representing interest	4,499	18,335	22,834
Total obligation	\$ 61,126	185,745	246,871

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Payments due for finance leases through fiscal year 2031 are summarized below as of June 30, 2020:

2021	\$	8,050
2022		8,283
2023		8,524
2024		8,772
2025		9,027
After 2025		<u>33,789</u>
		76,445
Less: amounts representing interest		<u>17,533</u>
Total obligation	\$	<u><u>58,912</u></u>

As of June 30, 2020, the gross amount of assets and accumulated depreciation thereon are reflected in property and equipment and amounted to \$95,149 and \$55,593, respectively.

The following presents supplemental cash flow information for the year ended June 30, 2020 as it relates to cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows for operating leases	\$	52,820
Operating cash flows for finance leases		4,190
Financing cash flows for finance leases		3,797

As reflected in the fiscal 2019 financial statements, the aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms for operating leases are as follows as of June 30, 2019:

	<u>Affiliates</u>	<u>Others</u>	<u>Total</u>
2020	\$ 16,620	34,506	51,126
2021	13,486	31,332	44,818
2022	12,107	26,328	38,435
2023	8,215	21,264	29,479
2024	6,394	20,128	26,522
After 2024	<u>23,088</u>	<u>38,827</u>	<u>61,915</u>
	<u>\$ 79,910</u>	<u>172,385</u>	<u>252,295</u>

Rental expense for the long-term operating leases was \$54,440 in fiscal year 2019.

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The following is a summary of minimum lease payments for these leases as of June 30, 2019:

2020	\$	7,987
2021		8,050
2022		8,283
2023		8,524
2024		8,772
After 2024		42,842
Minimum lease payments		84,458
Less imputed interest (at rates from 3.24% to 8.41%)		21,356
Present value of minimum lease payments	\$	63,102

As of June 30, 2019, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases amounted to \$95,149 and \$51,043, respectively.

**(16) Risks and Uncertainties**

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The widespread outbreak of COVID-19, together with the resulting voluntary restrictions and governmental orders, public gathering limitations, restrictions on travel and quarantines, has disrupted, and is expected to continue to meaningfully disrupt, the global economy, including universities and colleges. Although it is not possible to determine the pandemic's ultimate length, severity, or impacts on the economy or the University's finances, the University has experienced adverse effects related to COVID-19. As a result of the pandemic, in March 2020, the University suspended in-person education and other campus-based activities, resulting in a reduction in revenues, including lost revenues resulting from the deferral of clinical elective procedures, a decrease in sponsored activities and the refunding of a portion of student housing and dining revenues. Although the University has incurred certain incremental costs due to the pandemic, including transitioning to online education and work environments, it has also experienced reductions in certain other recurring costs, such as travel and utilities.

The pandemic is expected to continue to adversely affect the University's ability to conduct its operations, the cost of its operations, and the generation of certain revenue, including from enrollment, campus housing and dining, clinical services, international activities, and other operating activities, as well as from financial markets and fundraising, and such effects could be consequential to the University. As a result, the University has taken a variety of mitigating actions to reduce costs, including the temporary suspension of employer 403(b) contributions beginning July 1, 2020. The full extent of the impact of COVID-19 on the University will depend on various future developments, particularly the duration and depth of the pandemic, which may be influenced by emerging vaccines, medical treatments and applicable health and safety regulations.

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**(17) Other Commitments and Contingencies**

**(a) Guarantees**

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, 2020, the University's guarantee amounted to \$14,000 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.

**(i) Specific Matters**

On April 1, 2015, a complaint was filed against the University, its Bloomberg School of Public Health and its School of Medicine, JHHSC and JHH (collectively the "Johns Hopkins Defendants"), as well as another institution and a pharmaceutical company (collectively the "defendants"). 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 Guatemalan government, and the Pan American Sanitary Bureau. The plaintiffs' third amended complaint alleges that physicians and scientists employed by defendants "approved, encouraged, and directed nonconsensual and nontherapeutic human experiments in Guatemala" in which research subjects were intentionally exposed to and infected with venereal diseases without informed consent, and that the individuals were not advised about the consequences of the experiments or given follow-up care, treatment, or education. The third amended complaint alleges claims under both the Guatemala civil code and the federal Alien Tort Statute (the "ATS"), 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. 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. A prior lawsuit against officials of the United States government for the same injuries alleged in the suit against the Johns Hopkins Defendants was dismissed by the U.S. District Court for the District of Columbia.

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On August 30, 2017, the Court issued a memorandum decision dismissing all of plaintiffs' Guatemala law claims, but denying defendants' motion to dismiss the third amended complaint with respect to the ATS claims. On May 16, 2018, defendants filed a motion for judgment on the pleadings based upon the Supreme Court's decision in *Jesner v. Arab Bank, PLC*, 138 S. Ct. 1386 (2018), which holds that the ATS does not authorize federal courts to create federal common law causes of action against foreign corporations, as doing so would usurp Congress's role and violate the separation of powers. Defendants argue that although the Supreme Court's formal holding applied to foreign corporations—the only type of corporation that was a party to the case—the Supreme Court's reasoning should apply to domestic corporations as well.

On January 3, 2019, the Honorable Theodore D. Chuang denied the motion, declining to extend the majority's reasoning in *Jesner* to domestic corporations. On April 23, 2019, however, Judge Chuang granted defendants' Motion to Certify Interlocutory Appeal, and on May 17, 2019, the Fourth Circuit granted defendants' petition for permission to appeal. Briefing was completed in October 2019. In August 2020, the Fourth Circuit issued an order placing the case in abeyance pending a decision by the United States Supreme Court in No. 19-416, *Nestle USA, Inc. v. John Doe I*. At this time, discovery has closed and both plaintiffs and defendants filed motions for summary judgment. Briefing on these motions concluded in April 2020. The Court has not yet ruled on the motions. The Johns Hopkins Defendants intend to continue to vigorously defend this lawsuit.

**(18) Subsequent Events**

The University evaluated subsequent events through September 30, 2020, which is the date the consolidated financial statements were issued. There were no additional matters that required adjustment to or disclosure in the consolidated financial statements.