The Johns Hopkins Health System Corporation and Affiliates

Reports on Federal and Florida State Awards in Accordance with OMB Circular A-133; Section 215.97, Florida Statutes; and Chapter 10.650, Rules of the Auditor General
June 30, 2015
Federal Entity Identification Number 52-1465301

The Johns Hopkins Health System Corporation and Affiliates
Index
June 30, 2015

Page(s)

Part I - Financial Statements and Schedule of Expenditures of Federal Awards

Independent Auditor's Report 1–2

Combined Balance Sheets 3–4

Combined Statements of Operations and Changes in Net Assets 5

Combined Statements of Cash Flows 6

Notes to Combined Financial Statements 7–37

Schedule of Expenditures of Federal Awards 38–39

Schedule of Expenditures of State Financial Assistance 40

Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance 41

Part II - Reports on Compliance and Internal Control

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 42-43

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133; Section 215.97, Florida Statutes; and Chapter10.650 Rules of the Auditor General 44-45

Part III - Findings

Schedule of Findings and Questioned Costs 46-47

Summary Schedule of Prior Audit Findings 48

Part I

Financial Statements and
Schedules of Expenditures of Federal Awards and Florida State
Financial Assistance

Year Ended June 30, 2015

Independent Auditor's Report

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

Report on the Combined Financial Statements

We have audited the accompanying financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS"), which comprise the combined balance sheets as of June 30, 2015 and 2014, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of JHHS as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Section 215.97, Florida Statutes, and Chapter 10.650 Rules of the Auditor General of Florida, respectively, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of federal awards and state financial assistance are fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 on our consideration of JHHS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2015. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering JHHS' internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 23, 2015

The Johns Hopkins Health System Corporation and Affiliates
Combined Balance Sheets
June 30, 2015 and 2014
(in thousands)

ASSETS	2015	2014
Current assets:		
Cash and cash equivalents	$ 579,489	$ 569,702
Short-term investments	89,902	117,905
Assets whose use is limited - used for current liabilities	14,520	16,282
Patient accounts receivable, net of estimated uncollectibles of $164,107 and $158,664 as of June 30, 2015 and 2014, respectively	577,825	522,942
Due from others, current portion	29,709	35,964
Due from affiliates, current portion	25,426	20,764
Inventories of supplies	100,389	87,868
Estimated malpractice recoveries, current portion	37,344	224,902
Prepaid expenses and other current assets	65,547	53,978
Total current assets	1,520,151	1,650,307
Assets whose use is limited		
By long-term debt agreement for:		
Debt service reserve funds	-	4,955
Construction funds	40,929	150,811
By donors or grantors for:		
Future campus development	1,082	1,113
Pledges receivable	35,136	28,077
Other	99,430	95,910
By Board of Trustees	734,967	841,216
Interest in net assets of Howard Hospital Foundation	16,688	13,644
Other	145,196	20,896
Total assets whose use is limited	1,073,428	1,156,622
Investments	1,665,257	1,576,615
Property, plant and equipment	4,567,180	4,386,047
Less: allowance for depreciation and amortization	(1,774,055)	(1,621,180)
Total property, plant and equipment, net	2,793,125	2,764,867
Due from affiliates, net of current portion	101,268	90,888
Due from others, net of current portion	1,796	2,796
Estimated malpractice recoveries, net of current portion	33,915	42,260
Swap counterparty deposit	92,690	80,330
Other assets	49,049	49,376
Total assets	$ 7,330,679	$ 7,414,061

The accompanying notes are an integral part of these financial statements.

The Johns Hopkins Health System Corporation and Affiliates
Combined Balance Sheets, continued
June 30, 2015 and 2014
(in thousands)

LIABILITIES AND NET ASSETS	2015	2014
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 44,477	$ 98,705
Accounts payable and accrued liabilities	553,193	511,398
Medical claims reserve	74,584	74,627
Deferred revenue	82,779	88,561
Due to affiliates, current portion	11,724	10,110
Accrued vacation	69,569	65,385
Advances from third-party payors	131,837	140,112
Current portion of estimated malpractice costs	45,476	234,885
Total current liabilities	1,013,639	1,223,783
Long-term debt and obligations under capital leases, net of current portion	1,621,439	1,633,116
Estimated malpractice costs, net of current portion	123,312	126,747
Net pension liability	536,542	448,835
Interest rate swap liabilities	213,287	190,621
Other long-term liabilities	67,196	63,433
Total liabilities	3,575,415	3,686,535
Net assets:		
Unrestricted	3,510,059	3,501,484
Temporarily restricted	186,458	167,451
Permanently restricted	58,747	58,591
Total net assets	3,755,264	3,727,526
Total liabilities and net assets	$ 7,330,679	$ 7,414,061

The accompanying notes are an integral part of these financial statements.

The Johns Hopkins Health System Corporation and Affiliates
Combined Statements of Operations and Changes in Net Assets
for the years ended June 30, 2015 and 2014
(in thousands)

	2015	2014
Operating revenues:		
Net patient service revenue before provision for bad debts	$ 4,991,376	$ 4,726,648
Provision for bad debts	(93,771)	(141,364)
Net patient service revenue	4,897,605	4,585,284
Other revenue	565,379	479,225
Investment income	69,373	53,210
Net assets released from restrictions used for operations	7,732	7,806
Total operating revenues	5,540,089	5,125,525
Operating expenses:		
Salaries, wages and benefits	2,127,874	2,035,990
Purchased services	2,020,868	1,813,942
Supplies and other	871,160	783,493
Interest	36,712	39,038
Depreciation and amortization	264,590	266,226
Total operating expenses	5,321,204	4,938,689
Income from operations	218,885	186,836
Non-operating revenues and expenses:		
Interest expense on swap agreements	(27,593)	(27,832)
Change in fair value of interest rate swap agreements	(22,666)	(6,201)
Net realized and changes in unrealized (losses) gains on investments	(25,004)	218,948
Loss on advance refunding of debt	(16,535)	-
Other non-operating expenses	(21,384)	(14,480)
Excess of revenues over expenses before noncontrolling interests	105,703	357,271
Noncontrolling interests	(11,588)	(18,965)
Excess of revenues over expenses	94,115	338,306
Contributions to affiliates	(5,586)	(8,268)
Change in funded status of defined benefit plans	(98,153)	(68,722)
Net assets released from restrictions used for purchases of property, plant, and equipment	6,687	6,295
Noncontrolling interests	11,588	18,965
Other	(76)	(103)
Increase in unrestricted net assets	8,575	286,473
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	30,564	26,500
Net change in Howard Hospital Foundation	2,862	(417)
Net assets released from restrictions used for purchases of property, plant, and equipment	(6,687)	(6,295)
Net assets released from restrictions used for operations	(7,732)	(7,806)
Other	-	(2,405)
Increase in temporarily restricted net assets	19,007	9,577
Changes in permanently restricted net assets:		
Gifts, grants and bequests	(26)	1,711
Net change in Howard Hospital Foundation	182	158
Increase in permanently restricted net assets	156	1,869
Increase in net assets	27,738	297,919
Net assets at beginning of year	3,727,526	3,429,607
Net assets at end of year	$ 3,755,264	$ 3,727,526

The accompanying notes are an integral part of these financial statements.

The Johns Hopkins Health System Corporation and Affiliates
Combined Statements of Cash Flows
for the years ended June 30, 2015 and 2014
(in thousands)

	2015	2014
Operating activities:		
Change in net assets	$ 27,738	$ 297,919
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	264,571	267,158
Provision for bad debts	93,771	141,364
Net realized and changes in unrealized losses (gains) on investments	26,817	(219,182)
Change in fair value of interest rate swap agreements	22,666	6,201
Change in funded status of defined benefit plans	98,153	68,722
Restricted contributions and investment income received	(10,651)	(23,394)
Gains on and returns on equity investments	(19,067)	(14,354)
Advance refunding of debt	16,535	-
Other operating activities	24,074	(1,702)
Change in assets and liabilities:		
Patient accounts receivable	(151,974)	(141,879)
Inventories of supplies, prepaid expenses and other current assets	(22,097)	(139,660)
Due from affiliates, net	467	(17,681)
Pledges receivable	(8,370)	466
Swap counterparty deposit and other assets	(140,528)	(11,628)
Accounts payable, accrued liabilities and accrued vacation	60,357	40,499
Medical claims reserve	4,354	(3,294)
Deferred revenue	(7,162)	25,164
Advances from third-party payors	(8,275)	11,324
Accrued pension benefit costs	(10,193)	(28,011)
Estimated malpractice costs	5,368	158,901
Other long-term liabilities	2,480	(217)
Net cash and cash equivalents provided by operating activities	269,034	416,716
Investing activities:		
Purchases of property, plant and equipment	(309,687)	(260,082)
Return of equity investments	(6,289)	2,054
Purchases of investment securities	(2,259,608)	(3,986,405)
Sales of investment securities	2,421,964	3,670,349
Payments received on Affiliate notes	30,436	36,058
Advances on Affiliate notes	(40,856)	(33,930)
Other investing activities	(3,044)	(752)
Net cash and cash equivalents used in investing activities	(167,084)	(572,708)
Financing activities:		
Proceeds from restricted contributions and investment income received	10,651	23,394
Proceeds from long-term borrowings	193,980	247,000
Repayment of long-term debt and obligations under capital lease	(292,212)	(46,737)
Distributions attributable to noncontrolling interests	(4,650)	(6,692)
Other financing activities	68	(1,764)
Net cash and cash equivalents (used in) provided by financing activities	(92,163)	215,201
Change in cash and cash equivalents	9,787	59,209
Cash and cash equivalents at beginning of year	569,702	510,493
Cash and cash equivalents at end of year	$ 579,489	$ 569,702

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization. The Johns Hopkins Health System Corporation ("JHHSC") is incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHSC and Affiliates ("JHHS"). In addition, it provides certain shared services including finance, human resources, payroll, accounts payable, purchasing, patient financial services, legal, and other functions. JHHS is organized and operated for the purpose of promoting health by functioning as a parent holding company of affiliates whose combined mission is to provide patient care in the treatment and prevention of human illness which compares favorably with that rendered by any other institution in this country or abroad.

JHHSC is the sole member of The Johns Hopkins Hospital ("JHH"), an academic medical center, Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), a community based teaching hospital, Howard County General Hospital, Inc. ("HCGH"), a community based hospital, Suburban Hospital, Inc. ("SHI"), a community based hospital, Sibley Memorial Hospital ("SMH"), a community based hospital, All Children's' Hospital, Inc. ("ACH"), an academic children's hospital, Suburban Hospital Healthcare System, Inc. ("SHHS"), a diverse healthcare system, All Children's Health System ("ACHS"), a diverse healthcare system, Johns Hopkins Community Physicians ("JHCP"), a community based physician practice group, The Johns Hopkins Medical Services Corporation ("JHMSC"), the contracting entity for the Uniformed Services Family Health Plan contract, and the HCGH OB/GYN Associates Series, LLC ("HCOB"), a taxable community based obstetrics and gynecology practice. JHHSC is also the sole shareholder of Howard County Health Services, Inc. ("HCSI"), a taxable entity organized to hold interests in various health care enterprises, Johns Hopkins Medical Management Corp. ("JHMMC"), a taxable entity organized to provide temporary nursing and clerical staffing and to promote ambulatory care arrangements in support of JHHS, and Johns Hopkins Employer Health Programs, Inc. ("EHP"), a taxable third-party administrator for employee health benefit plans self-funded by the constituent employee sponsors. JHHSC owns a 99.8% interest in Ophthalmology Associates, LLC ("OA"), a taxable professional services organization which operates an ophthalmology center at Green Spring Station. JHHSC and the Johns Hopkins University (the "University") each own a 50% membership interest in Johns Hopkins HealthCare LLC ("JHHC"), a taxable managed care entity supporting JHHS and the University in cooperative strategies by which patient care, education, and research may be advanced. JHHSC consolidates JHHC. These entities are all consolidated operating entities and are collectively known as the "Affiliates".

Use of estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of presentation. The accompanying combined financial statements and supplementary combining schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of combination. The combined financial statements include the accounts of JHHSC and all Affiliates after elimination of all significant intercompany accounts and transactions.

Cash and cash equivalents. Cash and cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. JHHS has not experienced such losses on these funds.

Through arrangements with banks, excess operating cash is invested daily. This investment is considered a cash equivalent in the accompanying Combined Balance Sheets. JHHS earns interest on these funds at a rate that is based upon the bank's Federal Funds rate. The interest is recorded in the Combined Statements of Operations and Changes in Net Assets as investment income.

Inventories of supplies. Inventories of supplies are composed of medical supplies, drugs, linen, and parts inventory for repairs. Inventories of supplies are recorded at lower of cost or market using a first in, first out method.

Assets whose use is limited. Assets whose use is limited ("AWUIL") or restricted by the donor are recorded at fair value at the date of donation. Investment income or losses on investments of temporarily or permanently restricted assets is recorded as an increase or decrease in temporarily or permanently restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

Assets whose use is limited include assets held by trustees under debt agreements, assets restricted by the board of trustees, pledges receivable, beneficial interest remainder trusts, interest in the net assets of Howard Hospital Foundation, and net assets set aside pursuant to their temporarily and permanently restricted nature. These assets consist primarily of cash and short term investments, accrued interest and pledges receivable. The carrying amounts reported in the Combined Balance Sheets represent fair value.

Investments and investment income. Investments in equity securities with readily determinable fair values and all investments in debt securities are classified as trading and are recorded at fair value in the Combined Balance Sheets. Debt and equity securities traded on a national securities and international exchange are valued as of the last reported sales price on the last business day of the fiscal year; investments traded on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

Investments include equity method investments in managed funds, which include hedge funds, private partnerships and other investments which do not have readily ascertainable fair values and may be subject to withdrawal restrictions. Investments in hedge funds, private partnerships, and other investments in managed funds (collectively "alternative investments"), are accounted for under the equity method. The equity method income or loss from these alternative investments is included in the Combined Statements of Operations and Changes in Net Assets as an unrealized gain or loss above excess of revenues over expenses.

Alternative investments are less liquid than other types of investments held by JHHS. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

Investment income earned on cash and investment balances (interest and dividends) is reported in the operating income section of the Combined Statements of Operations and Changes in Net Assets under 'Investment income'. Realized gains or losses related to the sale of investments, and changes in unrealized gains or losses on investments are included in the non-operating section of the Combined Statements of Operations and Changes in Net Assets included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Investments in companies in which JHHS does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method of accounting, and operating results flow through investment income on the Combined Statements of Operations and Changes in Net Assets. Dividends received are recorded as a reduction of the carrying amount of the investment.

Investments in companies in which JHHS does not have control, nor has the ability to exercise significant influence over operating and financial policies, are accounted for using the cost method of accounting. Investments are originally recorded at cost, with dividends received being recorded as investment income.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Equipment is recorded as an asset if the individual cost is at least $5 thousand and the useful life is at least two years. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of lease term or estimated useful life of the equipment. Estimated useful lives assigned by JHHS range from 2 to 25 years for land improvements, 3 to 45 years for buildings and improvements, 2 to 25 years for fixed and movable equipment, and 2 to 20 years for leasehold improvements (using the lesser of the lease term or the useful life of the improvement). Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating income.

The cost of software is capitalized provided the cost of the project is at least $30 thousand ($100 thousand for JHH) and the expected life is at least two years. Costs include payment to vendors for the purchase of software and assistance in its installation, payroll costs of employees directly involved in the software installation, and capitalized interest costs of the software project. Preliminary costs to document system requirements, vendor selection, and any costs incurred before the software purchase are expensed. Capitalization of costs ends when the project is completed and is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project are capitalized. Costs incurred to maintain the system are expensed.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of long-lived assets. Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. JHHS' policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and are reported in the non-operating section of the Combined Statements of Operations and Changes in Net Assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No material impairment charges were recorded in 2015 or 2014.

Financing expenses. Financing expenses incurred in connection with the issuance of debt have been capitalized and are included in other assets in the Combined Balance Sheets. The expenses are being amortized over the terms of the related debt issues using the effective interest method. The total amount capitalized as of June 30, 2015 and 2014 was $8.1 million and $7.4 million, respectively. The total amount expensed for the period ended June 30, 2015 and 2014 was $988 thousand and $721 thousand, respectively.

Intangible asset. In connection with the acquisition of ACH in 2011, an intangible asset for the trade name "All Children's Hospital" of $11.7 million was recognized, and is recorded in other long-term assets on the Balance Sheets. The trade name is considered to have an indefinite useful life and is not amortized into results of operations. The trade name is reviewed for impairment annually or more often if impairment indicators arise. No impairment charges were recorded for the years ended June 30, 2015 and 2014.

Medical claims reserve. JHHC's medical claims reserve is an estimate of payments to be made for reported claims and losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operating income.

Deferred revenue. JHHC's capitated receipts received in advance for future services to be provided are recorded as deferred revenue.

Accrued vacation. JHHS records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior periods.

Advances from third-party payors. JHHS receives advances from some of its third-party payors so that those payors can receive the stated prompt pay discount allowed in the State of Maryland. Advances are recorded as a liability in the Combined Balance Sheets.

Estimated malpractice costs. The provision for estimated medical malpractice claims includes estimates of the ultimate gross costs for both reported claims and claims incurred but not reported. Additionally, an insurance recovery has been recorded representing the amount expected to be recovered from the self-insured captive insurance company.

Swap agreements. The value of the interest rate swap agreements entered into by JHHS are adjusted to fair value monthly at the close of each accounting period based upon quotations from market makers. The change in fair value, if any, is recorded in the non-operating section of the Combined Statements of Operations and Changes in Net Assets. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements. The counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

Noncontrolling interests. JHHC is owned by JHHSC and the University, each member having a 50% interest. JHHC's profits are divided between the members based on product line. Based on control, JHHSC consolidates JHHC and records noncontrolling interests for the profits attributable to the University. Additionally, JHHC owns a 50% interest in Priority Partners Managed Care Organization, Inc. ("Priority Partners"), a for-profit joint venture. Based on control, JHHC consolidates Priority Partners and records noncontrolling interests for 50% of the profits.

Asset retirement obligations. Accounting for asset retirement obligations provides for the recognition of an estimated liability for legal obligations associated with the retirement of tangible long-lived assets, including obligations that are conditional upon a future event. JHHS measures asset retirement obligations at fair value when incurred and capitalizes a corresponding amount as part of the related long-lived assets. The increase in the capitalized cost is included in determining depreciation expense over the estimated useful life of these assets. Since the fair value of the asset retirement obligation is determined using a present value approach, accretion of the obligation due to the passage of time until its settlement is recognized each year as part of interest expense in the Combined Statements of Operations and Changes in Net Assets.

Temporarily and permanently restricted net assets. Temporarily restricted net assets are those whose use has been limited by donors or law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income generated from these assets is available as restricted by the donor or for general program support.

Donor restricted gifts. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash to JHHS greater than one year are discounted using a rate of return that a market participant would expect to receive at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose for the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Combined Statements of Operations and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received and unrestricted contributions are reported as other revenue in the Combined Statements of Operations and Changes in Net Assets.

Grants. JHHS receives various grants from individuals and agencies of the Federal and State Governments for the purpose of furthering its mission of providing patient care. Grants are recognized as support and the related project costs are recorded as expenses when services related to grants are incurred. Grant receivables are included in due from others in the Combined Balance Sheets and grant income is included in other revenue in the Combined Statements of Operations and Changes in Net Assets.

Managed care revenues. Premium revenue is recognized during the period in which JHHC or Priority Partners is obligated to provide services to its enrollees. Global contract revenue is based on global rate agreements with various third-party payors who, based on medical procedures, pay contractual packaged prices. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Management fees represent capitated payments for management services from Johns Hopkins University, JHMSC, and EHP, and are recognized when obligated to provide the service.

Other revenue. Other revenue contains ancillary services such as discharge pharmacies and shared services provided to non-consolidating affiliates.

Excess of revenues over expenses. The Combined Statements of Operations and Changes in Net Assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include, among other items, changes in unrealized gains and losses on investments other than trading securities, change in funded status of defined benefit plans, changes in accounting principle, permanent transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Non-operating revenues and expenses. For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses. For the years ended June 30, 2015 and 2014, non-operating revenues and expenses are composed primarily of interest paid and changes in market value on interest rate swap agreements, realized and changes in unrealized gains (losses) on investments, non-operating services, and loss on advance refunding of debt.

Income taxes. JHHSC and Affiliates, except JHMMC, EHP, HCSI, OA, HCOB, and JHHC are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore not subject to tax under current income tax regulations.

JHHC is classified as a partnership for Federal and State income tax purposes and accordingly, there is no provision for income taxes in the accompanying combined financial statements. Taxable income or loss passes through to and is reported by the members in their respective tax returns. Taxable subsidiaries of Affiliates account for income taxes in accordance with Financial Accounting Standards Board ("FASB") guidance on accounting for income taxes. Deferred income taxes are recognized for the tax consequences in future years for differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. Affiliate subsidiaries otherwise exempt from Federal and State taxation are nonetheless subject to taxation at corporate tax rates at both the Federal and State levels on their unrelated business income. Total taxes paid to Federal and State tax authorities during the years ended June 30, 2015 and 2014 amounted to $37.5 million and $33.9 million, respectively.

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. The guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. There was no impact on JHHS' financial statements during the years ended June 30, 2015 and 2014.

New accounting standards. In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. JHHSC is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2019.

2. Net Patient Service Revenue

JHHS has agreements with third-party payors that provide for payments to JHHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments mandated by the Health Services Cost Review Commission ("Commission" or "HSCRC") are also included in contractual adjustments, a portion of which are also included in established rates.

The State of Maryland has been granted a waiver by the federal government exempting the State from national Medicare and Medicaid reimbursement principles. JHH, JHBMC, HCGH and SHI charges for inpatient as well as outpatient and emergency services performed at the hospitals are regulated by the Commission. JHHS' management has made all submissions required by the Commission and believes JHHS is in compliance with Commission requirements. Management believes that the waiver and Commission regulation will remain in effect through December 31, 2018.

Effective January 1, 2014, with retroactive application to revenues generated by services provided after June 30, 2013, the Commission and the Center for Medicare and Medicaid Services entered into a Global Budget Revenue Agreement ("GBR"). The agreement will remain in effect through December 31, 2018. The GBR moves from a Medicare per admission methodology to a per capita population health based methodology. However, all hospitals continue to receive reimbursement under an all payor basis. The methodology also includes a new waiver test. Under the new waiver test, growth in revenue per capita will be limited to a rate of 3.58% for the State of Maryland in total. The new agreement sets a hospital's revenue base annually under a global budget arrangement, whereby revenue would be fixed regardless of changes in volume and patient mix for Maryland residents. Hospital revenue for Maryland residents receiving care at Maryland hospitals is subject to this global budget. However, out of state patients receiving care at Maryland hospitals are not subject to the global budget. The hospital would receive full rate authority for any out of state volume and growth, or would receive less revenue for lower volumes of out of state patients. HCGH has negotiated to include out of state volume within their global budget; therefore, all in state and out of state volumes are subject to their global budget.

Under the Commission reimbursement methodology, amounts collected for services to patients under the Medicare and Medicaid programs are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

SMH and ACH operate outside of the State of Maryland, and are paid prospectively based upon negotiated rates for commercial insurance carriers, and predetermined rates per discharge for Medicaid and Medicare program beneficiaries. Payment arrangements include cost-based reimbursement, per diem payments, prospectively determined rates per discharge, discounted charges, and fee schedules. Net patient service revenues are booked at estimated realizable amounts due from patients, third-party payors, and others for services rendered, and include estimated retroactive revenue adjustments due to future audits and reviews. Retroactive adjustments are estimated and are considered in the recognition of revenue in the period the services are rendered. Such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits and reviews.

ACH received final audited rates for previously-audited cost report years 2001, 2002, 2005, 2006, 2007 and 2008 during the twelve months ended June 30, 2015. Retroactive settlements for these years are included in net patient service revenue in the Combined Statements of Operations and Changes in Net Assets.

During the year ended June 30, 2015, SMH received no final audits for Medicare cost report years. As of June 30, 2015, SMH has Medicare cost report years 2009 through 2014 open.

Capitation payments included in net patient service revenue are recognized as premium revenues during the period in which JHHS Affiliates are obligated to provide services to its enrollees at contractually determined rates.

JHHS' not-for-profit Affiliates provide care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because the Affiliates do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to $53.4 million and $62.3 million for the years ended June 30, 2015 and 2014, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on JHHS' total expenses (less bad debt expense) divided by gross patient service revenue.

Patient accounts receivable are reported net of estimated allowances for uncollectible accounts and contractual adjustments in the accompanying financial statements. The provision for bad debts is based upon a combination of the payor source, the aging of receivables and management's assessment of historical and expected net collections, trends in health insurance coverage, and other collection indicators. The provision for bad debts related to patient service revenue is presented as a deduction from patient service revenue on the face of the Combined Statements of Operations and Changes in Net Assets. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospitals uninsured patients will be unable or unwilling to pay for the services provided. Thus, a significant provision for bad debts is recorded related to uninsured patients in the period services are provided. Management continuously assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience and payment trends by payor classification.

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ending June 30, 2015 from these major payor sources is as follows:

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 4,913,775	$ 77,601	$ 4,991,376

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ending June 30, 2014 from these major payor sources is as follows:

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 4,608,343	$ 118,305	$ 4,726,648

The following table depicts the mix of gross accounts receivable from patients and third-party payors as of June 30, 2015 and 2014:

	2015	**2014**
Medicare	19.2%	20.6%
Medicaid	13.4%	15.9%
Blue Cross and Blue Shield	13.8%	11.8%
Medicaid managed care organizations	7.5%	8.5%
Self pay and other third-party payers	46.1%	43.2%
Total	100.0%	100.0%

3. Pledges Receivable

As of June 30, 2015 and 2014, the value of pledges receivable before discounts was $42.0 million and $32.3 million, respectively. Pledges receivable have been discounted at rates ranging from 0.11% to 6.0% and consist of the following (in thousands):

As of June 30, 2015	1 Year	2 –5 Years	5 Years or Greater	Totals
Departmental campaigns	$ 3,345	$ 9,377	$ 1,604	$ 14,326
Future campus development	3,212	8,065	9,533	20,810
	$ 6,557	$ 17,442	$ 11,137	$ 35,136

As of June 30, 2014	1 Year	2 –5 Years	5 Years or Greater	Totals
Departmental campaigns	$ 3,183	$ 7,412	$ 1,664	$ 12,259
Future campus development	4,450	8,812	2,556	15,818
	$ 7,633	$ 16,224	$ 4,220	$ 28,077

Pledges are deemed to be fully collectible and therefore, no allowance for uncollectible pledges has been recorded.

4. Fair Value Measurements

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in its performance indicator. The fair value option may be applied on an instrument by instrument basis. Once elected, the fair value option is irrevocable for that instrument. The fair value option can be applied only to entire instruments and not to portions thereof. JHHS has not elected fair value accounting for any asset or liability that is not currently required to be measured at fair value.

JHHS follows the guidance on fair value measurements, which defines fair value 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, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

This guidance discusses valuation techniques such as the market approach, cost approach and income approach. The guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There are no instruments requiring Level 3 classification.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following table presents the financial instruments carried at fair value as of June 30, 2015 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 630,666	$ 630,666	$ -
Commercial paper (1)	26,482	26,482	-
Certificates of deposit (1)	1,822	-	1,822
U.S. Treasuries (2)	398,064	-	398,064
Corporate bonds (2)	304,319	-	304,319
Asset backed securities (2)	177,784	-	177,784
Equities and equity funds (3)	980,859	731,143	249,716
Fixed income funds (4)	233,750	146,530	87,220
Totals	$ 2,753,746	$ 1,534,821	$ 1,218,925
Liabilities			
Interest rate swap agreements (5)	$ 213,287	$ -	$ 213,287

The following table presents the financial instruments carried at fair value as of June 30, 2014 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 613,394	$ 613,394	$ -
Commercial paper (1)	22,521	22,521	-
Certificates of deposit (1)	2,033	-	2,033
U.S. Treasuries (2)	513,485	-	513,485
Corporate bonds (2)	367,592	-	367,592
Asset backed securities (2)	117,486	-	117,486
Equities and equity funds (3)	993,172	668,330	324,842
Fixed income funds (4)	227,634	220,769	6,865
Totals	$ 2,857,317	$ 1,525,014	$ 1,332,303
Liabilities			
Interest rate swap agreements (5)	$ 190,621	$ -	$ 190,621

(1) Cash equivalents, commercial paper, money market funds, and overnight investments include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost. Certificates of deposit and commercial paper that have original maturities greater than three months are considered short-term investments. Cash and cash equivalents, commercial paper, money market funds, and overnight investments are rendered level 1 due to their frequent pricing and ease of converting to cash. Computed prices and frequent evaluation versus fair value render the certificates of deposit level 2.

(2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based on quotes for similar securities; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates.

(3) Equities include individual equities and investments in mutual funds, and commingled trusts. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.

(4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.

(5) The interest rate swap agreements, discussed further in footnote 9 "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including long-term interest rates, LIBOR swap rates, and credit default swap rates.

During 2015 and 2014, there were no significant transfers between level 1 and 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while JHHS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date.

JHHS holds alternative investments that are not traded on national exchanges or over-the counter markets. These alternative investments are valued utilizing the net asset values provided by the underlying investment companies unless management determines some other valuation is more appropriate. There are no unfunded commitments related to JHHS' alternative investments.

The following table displays information by major alternative investment category as of June 30, 2015 (in thousands):

Description	Carrying Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 279,158	Monthly or quarterly	5 to 30 days	Within 10 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal or 90% within 30 days, 10% after annual audit
Fund of funds	$ 111,831	Monthly or quarterly	15 to 70 days	Within 5 days, within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge Funds	$ 12,628	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
Total	$ 403,617			

The following table displays information by major alternative investment category as of June 30, 2014 (in thousands):

Description	Carrying Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 230,986	Daily or monthly	Same day or 5 days	Day after trade, or within 15 to 30 days, 95% in 5 days of redemption, 5% in 30 days after withdrawal
Fund of funds	$ 108,368	Monthly or quarterly	25 to 70 days	Within 30 days, or 90% in 30 to 60 days, 10% after annual audit
Hedge Funds	$ 11,822	Quarterly	60 days	95% within 30 days of redemption date; 5% within 120 days of redemption date
Total	$ 351,176			

The estimated total fair value of long-term debt excluding capital leases, rendered level 2 based on quoted market prices for the same or similar issues, was approximately $1.7 billion and $1.8 billion for the years ended June 30, 2015 and 2014, respectively.

5. Cash and Cash Equivalents, Investments, and Assets Whose Use is Limited

Cash and cash equivalents and investments (short and long-term) as of June 30 consisted of the following (in thousands):

	2015 Carrying Amount	2014 Carrying Amount
Cash and cash equivalents measured at fair value	$ 630,666	$ 613,394
Cash and cash equivalents included in AWUIL	(51,177)	(43,692)
Total cash and cash equivalents	$ 579,489	$ 569,702
U.S. Treasuries	190,085	252,770
Commercial paper	25,526	21,968
Certificates of deposit	1,822	2,033
Corporate bonds	165,804	249,090
Asset backed securities	96,607	62,170
Fixed income funds	175,478	168,413
Equities and equity funds	585,992	503,488
Short and long-term investments measured at fair value	1,241,314	1,259,932
Investments in affiliates	195,430	168,154
Alternative investments	318,415	266,434
Total short and long-term investments	$ 1,755,159	$ 1,694,520

Assets whose use is limited as of June 30 consisted of the following (in thousands):

	2015 Carrying Amount	2014 Carrying Amount
Commercial paper	$ 956	$ 553
U.S. Treasuries	207,979	260,715
Corporate bonds	138,515	118,502
Asset backed securities	81,177	55,316
Fixed income funds	58,272	59,221
Equities and equity funds	394,867	489,684
Assets whose use is limited measured at fair value	881,766	983,991
Cash in AWUIL reported as cash and cash equivalents on leveling table	51,177	43,692
Alternative investments	85,202	84,742
Pledges receivable	35,136	28,077
Beneficial interest remainder trust	17,438	18,525
Interest in net assets of HHF	16,688	13,644
Other	541	233
Total assets whose use is limited	$ 1,087,948	$ 1,172,904

Realized and unrealized gains on investments for the years ended June 30, included in the non-operating revenues and expenses section of the Statement of Operations consisted of the following (in thousands):

	2015	2014
Realized gains on investments	$ 45,735	$ 54,703
Changes in unrealized (losses) gains on investments	(70,739)	164,245
Total	$ (25,004)	$ 218,948

Investments recorded under the cost or equity method as of June 30 consisted of the following (in thousands):

Affiliate	Cost / Equity	%	2015	2014
Johns Hopkins International, LLC ("JHI")	Equity	50.00%	$ 39,082	$ 22,436
Johns Hopkins Home Care Group, Inc. ("JHHCG")	Equity	50.00%	9,908	8,515
FSK Land Corporation	Equity	50.00%	7,910	6,564
Mt. Washington Pediatric Hospital and Foundation	Equity	50.00%	34,604	30,092
JHMI Utilities, LLC	Equity	50.00%	12,487	11,602
Sibley-Suburban Home Health Agency, Inc.	Equity	50.00%	6,468	5,089
West County, LLC	Equity	50.00%	7,979	7,637
MCIC Bermuda	Cost	10.00%	57,941	57,941
Other			19,051	18,278
			$ 195,430	$ 168,154

Summarized below are the aggregate assets, liabilities, revenues and expenses for JHI, Mt. Washington Pediatric Hospital and Foundation, and JHMI Utilities, LLC as of and for the year ended June 30, 2015 and June 30, 2014 (in thousands):

	2015	2014
Assets	$ 500,060	$ 429,666
Liabilities	311,948	282,774
Revenues	325,678	269,918
Expenses	279,487	246,753

During the year ended June 30, 2014, JHHS entered into a stock purchase agreement with Premier, Inc. ("Premier") whereby JHHS acquired 1.44 million class B shares of common stock for $1.5 million in cash and $1.0 million in value from its existing ownership of Premier. Premier went public on November 1, 2013. The class B shares vest ratably over a seven year period. Once vested, JHHS has the option to convert the vested class B shares to class A shares. No vested class B shares were converted during the years ended June 30, 2015 and 2014. The cost basis of the class B shares increases as the shares vest. As of June 30, 2015 and June 30, 2014 the total cost basis of the class B shares was $5.0 million and $3.7 million, respectively.

JHHS consolidates certain affiliates that it owns 50% or more, but less than 100%, because JHHS has control and significant influence over those affiliates. The net asset activity attributable to the noncontrolling interests consisted of the following as of June 30, (in thousands):

	2015	2014
Net assets attributable to noncontrollling interests at beginning of period	$ 71,421	$ 59,105
Income attributable to noncontrolling interests	11,588	18,965
Distributions attributable to noncontrolling interests	(4,650)	(6,692)
Other comprehensive income attributable to noncontrolling interests	-	43
Net assets attributable to noncontrolling interests at end of period	$ 78,359	$ 71,421

6. Property, Plant and Equipment

Property, plant and equipment and accumulated depreciation and amortization consisted of the following as of June 30 (in thousands):

	2015		2014	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land and land improvements	$ 170,646	$ 12,644	$ 158,752	$ 11,438
Buildings and improvements	2,226,815	774,585	2,164,271	709,494
Fixed and moveable equipment	1,749,502	853,855	1,664,795	771,656
Capitalized software	160,008	132,971	168,812	128,592
Construction in progress	260,209	-	229,417	-
	$ 4,567,180	$ 1,774,055	$ 4,386,047	$ 1,621,180

Accruals for purchases of property, plant and equipment as of June 30, 2015 and 2014 amounted to $23.6 million and $22.4 million, respectively, and are included in accounts payable and accrued liabilities in the Combined Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2015 and 2014 amounted to $264.6 million and $266.2 million, respectively.

During the year ended June 30, 2015 and 2014, JHHS retired long-lived assets determined to have no future value. During 2015, the original cost and corresponding accumulated depreciation of these long-lived assets was $112.9 million and $107.6 million, respectively. No proceeds from retirement were received in 2015. During 2014, the original cost and corresponding accumulated depreciation of these long-lived assets was $67.7 million and $66.4 million, respectively. No proceeds from retirement were received in 2014.

7. Medical Claims Reserves

JHHC's activity related to its liability for unpaid health claims for the years ended June 30 are summarized in the table below (in thousands):

	2015	2014
Balance, July 1	$ 102,531	$ 105,825
Incurred related to:		
Current year	1,095,017	981,898
Prior year	(15,684)	(24,541)
Total incurred	1,079,333	957,357
Paid related to:		
Current year	988,132	878,367
Prior year	86,847	82,284
Total paid	1,074,979	960,651
Balance, June 30	$ 106,885	$ 102,531

The medical claims reserve is inherently subject to a number of highly variable circumstances, including changes in payment patterns, cost trends and other relevant factors. Consequently, the actual experience may vary materially from the original estimate. The above medical claims reserves include intercompany activity that is eliminated in combination.

8. Debt

Debt as of June 30 is summarized as follows (in thousands):

	Interest Rate(s)	Final Maturity	2015	2014
Tax Exempt Maryland Health and Higher Education Facilities Authority ("MHHEFA") Bonds and Notes:				
1985 Series A and B – Pooled Loan Program Issue (JHBMC, JHHSC)	1.00%	2030	$ 4,163	$ 5,411
1990 Series - Revenue Bonds (JHH)	7.30% to 7.35%	2019	40,545	47,243
2004 Series A - Revenue Bonds (SHI)	4.7% to 5.5%	2016	3,310	8,145
2004 – Commercial Paper Revenue Notes Series B (JHBMC)	0.07%	2025	69,510	73,930
2008 Series - Revenue Bonds (JHH)	3.65% to 5.00%	2048	-	48,245
2010 Series - Revenue Bonds (JHH)	4.38% to 5.00%	2040	148,195	148,195
2011 Series A - Revenue Bonds (JHH)	2.00% to 5.00%	2026	67,095	69,755
2011 Series B – Revenue Bonds (JHH)	1.26%	2042	48,245	48,245
2012 Series A – Note (JHH)	0.55%	2023	49,470	50,845
2012 Series B - Revenue Bonds (JHH)	2.00% to 5.00%	2033	91,200	94,090
2012 Series C – Revenue Bonds (JHH)	0.94%	2038	83,600	83,975
2012 Series D – Revenue Bonds (JHH)	0.94%	2038	83,900	84,330
2012 Series E – Floating Rate Note (JHH)	0.66%	2029	100,000	100,000
2013 Series A – Revenue Bonds (JHHSC)	0.71%	2046	88,250	88,250
2013 Series B – Revenue Bonds (JHHSC)	0.69%	2029	57,490	59,710
2013 Series C – Revenue Bonds (JHHSC)	3.00% to 5.00%	2043	238,000	238,000
2015 Series A - Revenue Bonds (JHHSC)	2.00% to 5.00%	2040	134,735	-
2015 Series B - Revenue Bonds (JHHSC)	0.67%	2018	48,245	-
Tax Exempt City of St. Petersburg Health Facilities Authority Revenue				
2002 Series - Revenue Bonds (ACH)	4.0% to 5.5%	2021	-	18,330
2007 Series B – Revenue Refunding Bonds (ACH)	0.45%	2034	-	25,875
2009 Series A – Revenue Refunding Bonds (ACH)	3.5% to 6.5%	2039	-	67,036
2012 Series A – Revenue Refunding Bonds (ACH)	0.63%	2035	97,450	99,100
Tax Exempt District of Columbia Revenue Bonds:				
2009 Series - Revenue Bonds (SMH)	4.00% to 6.50%	2039	-	69,032
Taxable Revenue Bonds:				
2013 Series – Taxable Bonds (JHHSC)	1.42% to 2.77%	2023	148,165	148,165
Other debt:				
Johns Hopkins Endowment (JHHSC)	6.00%	2018	1,446	1,873
			1,603,014	1,677,780
Unamortized premiums and discounts, net			29,533	18,890
Obligations under capital leases			33,369	35,151
			1,665,916	1,731,821
Current maturities of long-term debt			(44,477)	(98,705)
Total long-term debt and obligations under capital leases, net of current portion			$ 1,621,439	$ 1,633,116

Obligated Group

The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of JHH, JHBMC, HCGH, SHI, SHHS, SMH, ACH and JHHSC. The most recent admission to the JHHS Obligated Group was ACH in November 2014. All of the debt of JHH, JHBMC, HCGH, SHI, SHHS, SMH, ACH and JHHSC is parity debt, and as such is jointly and separately liable through a claim on and a security interest in all of JHH's, JHBMC's, HCGH's, SHI's, SHHS', SMH's, ACH's, and JHHSC's receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, HCGH, SHI, SHHS, SMH, ACH and JHHSC are required to achieve a defined minimum debt service coverage ratio each year. As of June 30, 2015 the outstanding JHH, JHBMC, HCGH, SHI, SHHS, SMH, ACH and JHHSC parity debt was $1.7 billion. As of June 30, 2014 the outstanding JHH, JHBMC, HCGH, SHI, SHHS, SMH, and JHHSC parity debt was $1.5 billion. As of June 30, 2014, the total amount of debt outstanding under the ACH Obligated Group was $211.0 million.

2015 Series A Revenue Bonds - JHHSC

In May 2015, JHHSC closed the Series 2015A tax-exempt revenue bond issuance of $134.7 million to advance refund its SMH 2009 series revenue bonds, as well as its ACH 2009A series revenue bonds. The Series 2015A bonds were sold at a premium of $13.8 million which is being accounted for using the bond outstanding method. The SMH 2009 series bonds ($60.9 million outstanding as of the advance refunding date) were issued as tax-exempt revenue bonds with fixed interest rates and a final maturity date of October 1, 2039. The ACH 2009A series bonds ($63.3 million outstanding as of the advance refunding date) were issued as tax-exempt revenue bonds with fixed interest rates and a final maturity date of November 15, 2039. The SMH 2009 series bonds and the ACH 2009A series bonds had a call provision where the bonds could not be redeemed for 10 years. Therefore, all future interest costs plus principal were placed in an escrow account with a trustee that will make the required principal and interest payments until which time the bonds can be called and redeemed in 2019. The advance refunding of the interest costs created a charge of $16.5 million that is included in the non-operating section of the Combined Statements of Operations and Changes in Net Assets. As of June 30, 2014, the SMH 2009 and ACH 2009A series bonds included $10.8 million of adjustments made at the time of acquisition of SMH and ACH to increase the value of the debt to fair value. These adjustments were being amortized to interest expense over the life of the respective debt.

The 2015A Bonds consisted of serial bonds and term bonds. They were issued at coupon rates of 5.00%, 4.00% and 2.00%, and reflect a premium structure resulting in yield to maturities ranging from 0.29% to 4.027%. The final maturity date is May 15, 2040.

2015 Series B Revenue Bonds - JHHSC

In May 2015, JHHSC closed the Series 2015B tax-exempt revenue bond issuance of $48.2 million to refund its outstanding JHHS 2008B revenue bonds. The 2015B Bonds are variable rate bonds that were issued with a three year term and a mandatory repurchase date of May 15, 2018. They pay interest monthly based on 67% of one-month LIBOR plus 0.55%. The reset date for LIBOR is on the first business day of each month.

2002 Series Revenue Bonds and 2007 Series B Revenue Bonds - ACH

On October 1, 2014, a conditional notice of optional redemption was issued for the 2002 Series and 2007 Series B Bonds. On October 31, 2014, the 2002 Series bonds were redeemed in the principal amounts of $18.3 million plus accrued interest. Also on October 31, 2014, the 2007 Series B bonds were redeemed in the principal amounts of $25.9 million plus accrued interest.

2012 Series E Bonds - JHH

On July 1, 2014, JHH made an $11.0 million principal payment related to the scheduled maturity of its 2012 Series E bonds. In connection with this principal payment, in March 2015, JHH issued an additional $11.0 million of bonds to replace the matured principal amount. The additional bonds are subject to the same terms and conditions of the original 2012 Series E bonds.

2013 Series C Revenue Bonds - JHHSC

In August 2013, JHHSC issued $238.0 million of tax-exempt MHHEFA Revenue Bonds ("2013 Series C Bonds") to finance construction of a new hospital on the SMH campus, and construction of a new Cancer Center and Emergency Department expansion projects on the JHBMC campus. The 2013 Series C Bonds were structured as serial bonds with maturities from 2016 through 2033, as well as two term bonds maturing 2038 and 2043. The 2013 Series C Bonds pay a fixed rate of interest ranging from 3.00% to 5.00%, and pay interest semi-annually on May 15th and November 15th. Principal and sinking fund payments range from $1.6 million to $39.5 million starting May 15, 2016.

Letters of Credit

As of June 30, 2015, the MHHEFA Pooled Loan Program Issue was supported by a letter of credit agreement provided by TD Bank, which has an expiration date of August 27, 2019. In connection with the 2004 MHHEFA Commercial Paper Revenue Notes, JHBMC entered into an $89.6 million line of credit agreement with Wells Fargo to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expires on October 31, 2016 subject to extension or earlier termination. No amounts were outstanding as of June 30, 2015 or 2014.

For the debt of JHHS and Affiliates, total maturities of debt and sinking fund requirements, excluding capital leases, during the next five fiscal years and thereafter are as follows as of June 30, 2015 (in thousands):

2016	$ 42,816
2017	34,271
2018	140,060
2019	43,004
2020	47,698
Thereafter	1,295,165
	$ 1,603,014

For the debt of JHHS and Affiliates described above, interest costs on debt and interest rate swaps incurred, paid and capitalized in the years ended June 30 are as follows (in thousands):

	2015	2014
Net interest costs:		
Capitalized	$ 12,181	$ 11,629
Expensed	64,305	66,870
Allocated to others	63	58
	$ 76,549	$ 78,557
Interest costs paid	$ 75,306	$ 76,182

Capital Leases

SHHS has a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and a building, located in north Bethesda, Maryland, which is known as the Suburban Outpatient Medical Center ("SOMC"). The lease term began on August 1, 2001 and will continue through December 31, 2026. The base rent escalates 2.25% per year, in accordance with the lease agreement. The lease contains four optional renewal periods for five years each. The SOMC lease has been recorded as a capital lease.

JHHC has a lease agreement with an unrelated party for the lease of a Cat Scan machine. The lease term began in May 2013 and will continue through May 2018. The base rent is fixed in accordance with the lease agreement. The lease has been recorded as a capital lease.

The total leased property of $39.9 million is reflected in property, plant and equipment as of June 30, 2015 and 2014. Accumulated depreciation on the leased assets was $22.1 million and $20.1 million as of June 30, 2015 and 2014, respectively.

Depreciation expense on these leased assets is included within depreciation expense in the Combined Statements of Operations and Changes in Net Assets.

The future minimum lease payments required under JHHS capital leases are as follows as of June 30, 2015 (in thousands):

	Capital Lease Payments
2016	$ 4,471
2017	4,502
2018	4,595
2019	4,341
2020	4,439
2021 and thereafter	31,430
Minimum lease payments	53,778
Interest on capital lease obligations	(20,409)
Net minimum payments	33,369
Current portion of capital lease obligation	(1,661)
Capital lease obligation, less current	$ 31,708

9. Derivative Financial Instruments

JHHS' primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was $758.9 million and $766.6 million as of June 30, 2015 and 2014, respectively.

JHHS follows accounting guidance on derivative financial instruments that are based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. All of JHHS' derivative financial instruments are interest rate swap agreements without hedge accounting designation.

JHHS does not hold derivative instruments for the purpose of managing credit risk and limits the amount of credit exposure to any one counterparty and enters into derivative transactions with high quality counterparties. JHHS recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within excess of revenues over expenses on the Combined Statements of Operations and Changes in Net Assets.

Each swap agreement has certain collateral thresholds whereby, on a daily basis, if the fair value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by JHHS with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2015 and 2014, the amount of required collateral was $92.7 million and $80.3 million, respectively.

The following table summarizes JHHS' interest rate swap agreements (in thousands):

Swap Type	Expiration Date	Counterparty	JHHS Pays	JHHS Receives	Notional Amount at June 30 2015	2014
Fixed	2022	J.P. Morgan	3.3290%	67% of 1-Month LIBOR	$ 49,500	$ 50,800
Fixed	2025	Bank of America	3.3265%	67% of 1-Month LIBOR	69,500	73,900
Fixed	2021	J.P. Morgan	3.9190%	68% of 1-Month LIBOR	25,000	25,000
Fixed	2034	Royal Bank of Canada	3.6235%	62.2% of 1-Month LIBOR + 0.27%	14,500	14,500
Fixed	2034	Citibank, N.A.	3.6235%	62.2% of 1-Month LIBOR + 0.27%	24,200	24,200
Fixed	2039	Goldman Sachs Capital Markets, L.P.	3.9110%	67% of 1-Month LIBOR	150,000	150,000
Fixed	2040	Goldman Sachs Capital Markets, L.P.	3.9220%	67% of 1-Month LIBOR	150,000	150,000
Fixed	2039	Goldman Sachs Capital Markets, L.P.	3.9460%	67% of 1-Month LIBOR	40,000	40,000
Fixed	2038	Goldman Sachs Capital Markets, L.P.	3.8190%	67% of 1-Month LIBOR	82,900	84,100
Fixed	2038	Merrill Lynch Capital Services	3.8091%	67% of 1-Month LIBOR	83,800	84,600
Fixed	2025	Goldman Sachs Capital Markets, L.P.	3.6910%	67% of 1-Month LIBOR	9,500	9,500
Fixed	2047	Citibank, N.A.	3.8505%	61.8% of 1-Month LIBOR + 0.25%	60,000	60,000
					$ 758,900	$ 766,600

Fair value of derivative instruments as of June 30 (in thousands):

	Derivatives reported as liabilities			
	2015		2014	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Interest Rate Swap liabilities	$ 213,287	Interest Rate Swap liabilities	$ 190,621

Derivatives not designated as hedging instruments as of June 30 (in thousands):

Classification of derivative loss in Statement of Operations	Amount of gain (loss) recognized in change in unrestricted net assets 2015	2014
Interest rate swaps:		
Non-operating expense	$ (22,666)	$ (6,201)

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of June 30 (in thousands) are restricted to:

	2015	2014
Purchase of property, plant, and equipment	$ 43,454	$ 35,797
Health care services	135,903	126,073
Health education and counseling	4,882	3,235
Indigent care	2,219	2,346
	$ 186,458	$ 167,451

Permanently restricted net assets as of June 30 (in thousands) are restricted to:

	2015	2014
Health care services	$ 45,841	$ 45,982
Health education and counseling	12,906	12,609
	$ 58,747	$ 58,591

The JHHS endowments do not include amounts designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, 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 JHHS has interpreted UPMIFA in the State of Maryland, the State of Florida, and the District of Columbia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, JHHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

11. Pension Plans

The Affiliates sponsor a variety of defined benefit pension plans (the “Plans”) covering substantially all of their employees. The retirement income benefits are based on a combination of years of service and compensation at various points of service. The FASB’s guidance on employer’s accounting for defined benefit pension and other postretirement plans requires that the funded status of defined benefit postretirement plans be recognized on JHHS’ Combined Balance Sheets, and changes in the funded status be reflected as a change in net assets.

The funding policy of all Affiliates is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. Assets in the Plans as of June 30, 2015 and 2014 consisted of cash and cash equivalents, equities and equity funds, fixed income funds, and alternative investments. All assets are managed by external investment managers, consistent with the Plans’ investment policy.

The change in benefit obligation, plan assets, and funded status of the Plans is shown below (in thousands):

Change in benefit obligation	2015	2014
Benefit obligation as of beginning of year	$ 1,697,672	$ 1,421,257
Service cost	62,453	52,881
Interest cost	77,502	71,507
Actuarial loss	41,283	196,275
Benefits paid	(49,276)	(44,248)
Benefit obligation as of June 30	$ 1,829,634	$ 1,697,672

Change in plan assets	2015	2014
Fair value of plan assets as of beginning of year	$ 1,248,837	$ 1,013,133
Actual return on plan assets	(18,280)	164,579
Employer contribution	111,560	115,523
Benefits paid	(49,025)	(44,398)
Fair value of plan assets as of June 30	$ 1,293,092	$ 1,248,837

Funded Status as of June 30	2015	2014
Fair value of plan assets	$ 1,293,092	$ 1,248,837
Projected benefit obligation	(1,829,634)	(1,697,672)
Unfunded status	$ (536,542)	$ (448,835)

Amounts recognized in the Combined Balance Sheets consist of (in thousands):

	2015	2014
Net pension liability	$ (536,542)	$ (448,835)
Net amount recognized	$ (536,542)	$ (448,835)

The projected benefit obligation is greater than the fair value of plan assets for all plans that are aggregated with these statements.

Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets consist of (in thousands):

	2015	2014
Actuarial net loss	$ 637,752	$ 539,711
Prior service cost	279	273
	$ 638,031	$ 539,984
Accumulated benefit obligation	$ 1,687,713	$ 1,563,231

Net Periodic Pension Cost

	2015	2014
Service cost	$ 62,453	$ 52,881
Interest cost	77,502	71,507
Expected return on plan assets	(92,123)	(79,694)
Amortization of prior service cost	(6)	794
Recognized net actuarial loss	51,873	39,647
Settlement loss recognized	1,666	2,082
Net periodic pension cost	$ 101,365	$ 87,217

Components of net periodic pension cost (in thousands):

Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets	2015	2014
Net loss	$ 151,686	$ 111,389
Amortization of net loss	(53,539)	(41,576)
Amortization of prior service cost	6	(794)
Total recognized in unrestricted net assets	$ 98,153	$ 69,019
Total loss recognized in net periodic benefit cost and unrestricted net assets	$ 199,518	$ 156,236

The estimated net loss and prior service cost credit that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are $52.3 million and ($33) thousand, respectively.

The assumptions used in determining net periodic pension cost for all plans except the SMH plan where noted are as follows for the years ended June 30:

	2015	2014
Discount rate	4.64%	5.12%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase - ultimate	2.50%	2.50%

The SMH plan utilized a rate of return on assets of 7.00% for the years ended June 30, 2015 and 2014, respectively, due to the nature of the plan being frozen and management's future expectations surrounding this plan.

The assumptions used in determining the benefit obligations for all plans except the SMH plan where noted are as follows as of July 1:

	2015	2014
Discount rate	4.76%	4.64%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase - ultimate	2.50%	2.50%

The SMH plan utilized an expected rate of return on assets of 7.00% for the years ended June 30, 2015 and 2014, respectively, due to the nature of the plan being frozen and management's future expectations surrounding this plan.

The expected rate of return on plan assets assumption, excluding SMH, was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions.

Plan Assets
Pension plan weighted average asset allocations as of June 30 by asset class are as follows:

Asset Class	2015	2014
Cash and cash equivalents	1.34%	1.88%
Equities and equity funds	16.95%	32.49%
Fixed income funds	43.79%	28.49%
Alternative investments	37.92%	37.14%
Total	100.00%	100.00%

The Plans assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JHHS' risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management style(s), providing a broad exposure to different segments of the fixed income and equity markets. The Plans strive to allocate assets between equity securities (including global asset allocation) and debt securities at a target rate of approximately 75% and 25%, respectively.

Fair Value of Plan Assets
Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions.

The following table presents the plan assets carried at fair value as of June 30, 2015 grouped by hierarchy level (in thousands):

Assets	Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 17,323	$ 17,323	$ -
Equities and equity funds (2)	219,133	121,867	97,266
Fixed income funds (3)	566,245	365,088	201,157
Alternative investments (4)	490,391	-	490,391
Totals	$ 1,293,092	$ 504,278	$ 788,814

The following table presents the plan assets carried at fair value as of June 30, 2014 grouped by hierarchy level (in thousands):

Assets	Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 23,488	$ 23,488	$ -
Equities and equity funds (2)	405,780	52,024	353,756
Fixed income funds (3)	355,816	244,771	111,045
Alternative investments (4)	463,753	-	463,753
Totals	$ 1,248,837	$ 320,283	$ 928,554

(1) Cash and cash equivalents, commercial paper, and money market funds include investments with original maturities of three months or less, and are rendered level 1 due to their frequent pricing and ease of converting to cash.
(2) Equities include individual equities and investments in mutual funds, and commingled trusts. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
(3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
(4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued at net asset values provided by the underlying investment companies unless management determines some other valuation is more appropriate. This valuation technique coupled with short term redemption notice periods renders these investments level 2.

There are no unfunded commitments related to the Plans' alternative investments.

The following table displays information by major alternative investment category as of June 30, 2015 (in thousands):

Description	Fair Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 281,159	Monthly	5 to 30 days	Within 15 days, or 95% on or within 5 days of redemption date, 5% within 3 to 30 days
Fund of funds	399	Quarterly	45 days	95% to 98% received as cash, within 30, 2% to 5% as cash in 3 days or as securities
Hedge funds	174,690	Monthly, quarterly, or bi-annually	30 to 95 days	90% to 95% within 15 to 30 days, 5% to 10% after annual audit or redemption date
Credit funds	34,143	Annually	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
Total	$ 490,391			

The following table displays information by major alternative investment category as of June 30, 2014 (in thousands):

Description	Fair Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 260,875	Daily or monthly	Same day or 5 to 30 days	Day after trade, or within 15 days, or 95% on redemption date, 5% within 3 days
Fund of funds	2,912	Quarterly	45 days	90% within 30, 10% after annual audit
Hedge funds	162,280	Monthly, quarterly, or bi-annually	30 to 95 days	90% to 95% within 15 to 30 days, 5% to 10% after annual audit or redemption date
Credit funds	37,686	Annually	60 to 90 days	Within 30 days, or 90% within 10 days, 10% after annual audit
Total	$ 463,753			

Contributions and Estimated Future Benefit Payments
JHHS expects to contribute $118.2 million to its pension plans in the fiscal year ending June 30, 2016.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, 2015 (in thousands):

2016	$ 60,856
2017	64,192
2018	71,048
2019	77,746
2020	84,417
Thereafter	514,223

Defined Contribution Plans
HCGH participates in a defined contribution 401(k) savings plan available to all employees, which was amended during 1996. The revised plan provides that HCGH will contribute 1% to 2% of each employee's total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH's contribution match basis is limited to 6% of the employee's total compensation. HCGH contributed approximately $3.4 million and $3.1 million to the plan for the years ended June 30, 2015 and 2014, respectively.

SMH participates in a defined contribution 401(k) savings plan available to all eligible employees. Under the plan, SMH matches one-half of a maximum 3% of employee contributions. SMH contributed approximately $2.9 million and $1.3 million to the plan for the years ended June 30, 2015 and 2014, respectively.

ACH participates in a defined contribution retirement plan of ACHS covering substantially all of its employees. Contributions are determined at the discretion of the Board of Directors of ACHS. ACH contributed approximately $7.0 million and $5.7 million to the plan for the years ended June 30, 2015 and 2014, respectively.

12. Professional and General Liability Insurance

The University and JHHS and Affiliates participate in an agreement with four other medical institutions to provide a program of professional and general liability insurance for each member institution. As part of this program, the participating medical institutions have formed a risk retention group ("RRG") and a captive insurance company to provide self-insurance for a portion of their risk.

JHH and the University each have a 10% ownership interest in the RRG and the captive insurance company, which is included in investments on the Combined Balance Sheets. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions range between $1.0 million and $5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted using 0.87% and 0.64% as of June 30, 2015 and 2014, respectively.

Effective December 15, 2013, ACH entered into the RRG to prospectively provide self-insurance for a portion of its risk. Prior to December 15, 2013, ACH maintained a claims-made commercial insurance policy. Claims incurred but not reported prior to December 15, 2013 are covered by separate “tail” policies issued by commercial insurance carriers and are subject to retention limits. Losses from asserted and un-asserted claims identified under ACH’s incident reporting systems are accrued based on estimates that incorporate ACH’s past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accruals for losses attributable to incidents that have occurred but that have not been identified under the incident reporting system have been made based upon the Hospital’s experience and industry data.

JHHS applies the provisions of ASU 2010-24, “Presentation of Insurance Claims and Related Insurance Recoveries”, which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. JHHS recorded an increase in its assets and liabilities in the accompanying consolidated Balance Sheet as of June 30, 2015 and 2014 as follows:

Caption on Combined Balance Sheet		**2015**		**2014**
Estimated malpractice recoveries, current portion	$	37,344	$	224,902
Estimated malpractice recoveries, net of current		33,915		42,260
Total assets	$	71,259	$	267,162
Current portion of estimated malpractice costs	$	37,344	$	224,902
Estimated malpractice costs, net of current portion		33,915		42,260
Total liabilities	$	71,259	$	267,162

The assets and liabilities represent JHHS’ estimated self-insured captive insurance recoveries for claims reserves and certain claims in excess of self-insured retention levels. The insurance recoveries and liabilities have been allocated between short-term and long-term assets and liabilities based upon the expected timing of the claims payments. The adoption had no impact on JHHS’ results of operations or cash flows.

Professional and general liability insurance expense incurred by JHHS and Affiliates was $58.2 million and $45.2 million for the years ended June 30, 2015 and 2014, respectively. Reserves were $168.8 million and $361.6 million as of June 30, 2015 and 2014, respectively.

13. Related Party Transactions

During the years ended June 30, 2015 and 2014, JHHS and its Affiliates engaged in various related party transactions. These transactions were not eliminated because these entities are not consolidated. There were no significant intercompany profits that were eliminated. The following is a summary of the significant related party transactions and balances for the year ended June 30:

Revenue/(expense) transactions (in thousands):

	2015	2014
Pharmacy management and patient discharge planning costs to JHHCG	$ (23,838)	$ (20,872)
Security and management of housekeeping and parking garage services provided by Broadway Services, Inc	(20,482)	(21,888)
Utility, telecommunication and clinical application services provided by JHMI Utilities, LLC	(74,223)	(71,269)

Due from/(to) related party balances as of June 30 (in thousands):

	2015	2014
Note receivable - JHMI Utilities, LLC	$ 10,525	$ 10,525
Due from other affiliates, net	3,177	129
Due from affiliates, current portion, net	$ 13,702	$ 10,654
Note receivable - JHMI Utilities, LLC	$ 93,690	$ 84,489
Due from other affiliates	7,578	6,399
Due from affiliates, net of current portion	$ 101,268	$ 90,888

Affiliate Notes Receivable:

JHHS has made loans to certain affiliates that do not consolidate within JHHS. The loans to these affiliates do not eliminate in consolidation. The short-term portion of these notes receivable are included in Due from affiliates, current portion, and the long-term portion is included in Due from affiliates, net of current portion in the Combined Balance Sheets.

JHH and JHHSC have affiliate notes receivable with JHMI Utilities, LLC. JHH's note receivable has a balance of $5.0 million as of June 30, 2015 and 2014. JHHSC's note receivable has a balance of $99.2 million and $90.0 million as of June 30, 2015 and 2014, respectively. The JHH note receivable has an initial repayment date of December 1, 2019, accrues interest in the initial period at a fixed rate of 6.0%, with interest payments paid monthly. The JHHSC note receivable is due in April 2023, accrues interest at a fixed rate of 5.85%, with principal and interest payments paid monthly.

14. Contracts, Commitments and Contingencies

There are several lawsuits pending in which JHHS has been named as a defendant. In the opinion of JHHS' management, after consultation with legal counsel, the potential liability, in the event of adverse settlement, will not have a material impact on JHHS' financial position.

In one such case, a physician formerly employed by JHHSC and leased to JHCP to provide obstetrical and gynecological services, illegally and without the knowledge of JHHSC, photographed his patients and possibly others with what JHHCS understands to be his personal photographic and video equipment and stored those images electronically. This occurred for an unknown period of time. JHHSC reached an agreement with plaintiffs' attorneys to settle the class action lawsuit in the amount of $190 million. The settlement was formalized by the plaintiffs' attorneys and JHHSC, and was fully approved by the Court on September 19, 2014. While one class member appealed the fund approval order, she later dismissed her appeal with prejudice on February 5, 2015, and the approval order become final and non-appealable. JHHSC maintains both primary and excess medical malpractice insurance coverage for this claim through its captive insurer, MCIC, with commercial excess reinsurance policies providing additional protection. MCIC and its reinsurers covered $186 million of the indemnity payment plus expense costs and $4 million of the indemnity was paid from other policies and deductibles other than MCIC. In connection with the settlement, under the provisions of ASU 2010-24, JHHSC recorded a current liability and corresponding insurance recovery for $190 million as of June 30, 2014. As of June 30, 2015, this liability and corresponding recovery were reversed as MCIC and its reinsurers have paid their respective portions.

As a result of the settlement agreement, JHH was required to post collateral to MCIC in the amount of approximately $124 million in February, 2015. This collateral is recorded within the other assets whose is limited line item on the combined balance sheets. JHH entered into a Control Agreement among JHH, MCIC and PNC bank which provides MCIC with the first priority perfected security interest in a dedicated account. On July 21, 2014, JHH signed a pledge agreement with MCIC which outlines the terms that would permit MCIC to draw from the account under the Control Agreement. Drawdown of the collateral by MCIC would take place only in the event another large claim develops which would require use of the excess layers within the 2013 policy year above the level of reinsurance coverage that still remains. The collateral requirement will be monitored annually by MCIC and released accordingly as the 2013 policy matures based upon actuarially determined measures. As of June 30, 2015, there are no additional claims in the 2013 policy year which exceed the self-insured layers within MCIC.

In another case, on April 1, 2015, a complaint was filed in the Circuit Court for Baltimore City against The Johns Hopkins University, its Bloomberg School of Public Health and its School of Medicine, The Johns Hopkins Health System Corporation and The Johns Hopkins Hospital (collectively the "Johns Hopkins Defendants"), as well as another institution and a pharmaceutical company. The case was removed to the United States District Court for the District of Maryland the same day. The claims arise from human experiments conducted in Guatemala between 1946 and 1948 (the "Study") under the auspices of the United States Public Health Service, the Guatemala government, and the Pan American Sanitary Bureau. The complaint alleges that physicians and scientists employed by defendants "approved, encouraged, and directed nonconsensual and nontherapeutic human experiments in Guatemala" in which research subjects were intentionally exposed to and infected with venereal diseases without informed consent, and that the individuals were not told about the consequences of the experiments or given follow-up care, treatment, or education. The complaint includes various claims, including, without limitation, claims of lack of consent/lack of informed consent, negligence, battery, unjust enrichment, wrongful death, fraud or deceit by misrepresentation, fraudulent concealment, and intentional infliction of emotional distress, and seeks compensatory damages in excess of $75 thousand and punitive damages of $1 billion. The Johns Hopkins Defendants dispute both the factual allegations and legal claims in the complaint. The Johns Hopkins Defendants did not initiate, pay for, direct, or conduct the Study. In 2010, the United States government accepted responsibility for the Study and apologized to all who were affected by it. Management and legal counsel believe the claims asserted are not supported by the facts or the law. JHHSC and JHH intend to vigorously defend the lawsuit.

JHHSC believes that JHHSC, JHH and any other affiliates against which a claim is asserted have legal defenses to such a claim and, based on the facts currently known, JHHSC does not anticipate that JHHSC or any of its affiliates will be affected financially in a materially adverse way.

JHHS and Affiliates

JHHS has agreements with the University, under which the University provides medical administration and educational services, conducts medical research programs, provides patient care medical services, provides resident physicians who furnish services at JHHS hospitals, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration and educational services is paid to the University by JHHS; funding for services in conducting medical research is paid from grant funds and by JHHS; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by the University; and compensation for other support services is paid to the University by JHHS. The aggregate amount of purchased services incurred by JHHS under these agreements was $291.4 million and $271.3 million for the years ended June 30, 2015 and 2014, respectively.

JHH had non-cancellable commitments under construction contracts of $59.8 million and $30.6 million as of June 30, 2015 and 2014, respectively, relating primarily to its campus redevelopment plan which includes the construction of a new Cardiovascular and Critical Care Adult Tower and a Children's Hospital.

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015, that have initial or remaining lease terms in excess of one year (in thousands).

2016	$	19,576
2017		18,825
2018		16,921
2019		15,775
2020		12,714

Rental expense for all operating leases for the years ended June 30, 2015 and 2014 amounted to $43.7 million and $41.7 million, respectively.

Asset Retirement Obligations

During 2006, JHHS recorded asset retirement obligations associated with the abatement of asbestos in several of its buildings constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2015 and 2014 was $19.4 million.

The change in asset retirement obligation for the years ended June 30 consisted of the following (in thousands):

	2015	2014
Retirement obligation at beginning of year	$ 19,446	$ 19,398
Liabilities settled	(612)	(657)
Accretion expense	584	705
Retirement obligation at end of year	$ 19,418	$ 19,446

The Johns Hopkins Hospital
In 2005, JHH and the University created a Limited Liability Company (JHMI Utilities, LLC) to provide utility and telecommunication services for their East Baltimore Campus. Each member owns 50% of the LLC and shares equally in the governance of the LLC. The LLC has also assumed the liability for the JHH's 1985 Pooled Loan obligation of $8.5 million. The cost of acquiring and upgrading the existing utility facilities, the construction of a new power plant and an upgrade of the telecommunication system have been financed through the issuance of tax exempt bonds by MHHEFA and the proceeds of the Pooled Loan program sponsored by MHHEFA. JHH and the University have guaranteed the total debt issued by MHHEFA. As of June 30, 2015, the amount of the debt guarantee by JHH was $49.6 million. JHH accounts for this investment under the equity method of accounting.

JHH has pledged investments, having an aggregate market value of $25.9 million as of June 30, 2015 and 2014, for JHHS compliance with regulations of the Workers Compensation Commission and the Department of Economic and Employment Development's Unemployment Insurance Fund. These investments are included in assets whose use is limited by board of trustees in the Combined Balance Sheet.

Department of Defense Agreement - MSC
JHMSC entered into a contract with the Department of Defense to provide the TRICARE Prime benefit to eligible beneficiaries enrolled in the Johns Hopkins Uniformed Services Family Health Plan ("USFHP"). Under the USFHP contract, JHMSC provides services covered under the TRICARE Designated Provider Contract to enrollees for a monthly capitation fee. Revenues generated under the contract were $378.0 million and $353.0 million for the years ended June 30, 2015 and 2014, respectively. The current sole source commercial contract was awarded for the period commencing October 1, 2013 through September 30, 2023, with a Base Year and nine one-year Option Periods to be exercised at the Government's discretion. The Base Year has been exercised with the first Option Period to begin on October 1, 2014.

15. Functional Expenses

JHHS provides general health care services to residents within its geographic location as well as to national and international patients. Expenses related to providing these services for the years ended June 30 consisted of the following (in thousands):

	2015	2014
Health care services	$ 4,262,984	$ 3,997,378
General and administrative services	1,042,080	933,686
Fundraising	7,278	6,417
Program service	8,862	1,208
Total expenses	$ 5,321,204	$ 4,938,689

16. The Johns Hopkins Hospital Endowment Fund, Incorporated

The Endowment Corporation was organized for the purpose of holding and managing the endowment and certain other funds transferred from and for the benefit of JHHS. The affairs of the Endowment Corporation are managed by a Board of Trustees, comprised of Trustees who are self-perpetuating. Neither JHHS nor any Affiliate holds legal title to any Endowment Corporation funds. The Board of Trustees may, in its discretion, award funds from the Endowment Corporation to organizations other than JHHS if the Board of Trustees determines that doing so is for the support, benefit of, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the combined financial statements of JHHS and its Affiliates until they are subsequently distributed to JHHS and its affiliates from the Endowment Corporation. The Endowment Corporation's net assets were $661.5 million and $676.9 million as of June 30, 2015 and 2014, respectively. The Endowment Corporation's distributions from net assets to JHHS and its affiliates were $10.8 million and $12.9 million for the years ended June 30, 2015 and 2014, respectively, and were recorded as other revenue.

17. Subsequent Events

JHHS has performed an evaluation of subsequent events through September 23, 2015, which is the date the financial statements were issued.

Schedules of Expenditures of Federal Awards and Florida State Financial Assistance

and

Notes to Schedules of Expenditures of Federal Awards and Florida State Financial Assistance

The Johns Hopkins Health System Corporation and Affiliates
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA #	AWARD IDENTIFICATION #	EXPENDITURES BY AFFILIATE JHH	JHBMC	JHSH	JHSMH	ACH	ACHS	JHCP	JHHC	JHHGH	TOTAL FEDERAL EXPENDITURES
UNITED STATES DEPARTMENT OF AGRICULTURE:												
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION												
CHILD & ADULT CARE FOOD PROGRAM	10.558	Not Available		$ 18,885								$ 18,885
TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE				18,885								18,885
UNITED STATES DEPARTMENT OF DEFENSE:												
BASIC AND APPLIED SCIENTIFIC RESEARCH	12.300	519-RITN					$ 8,000					8,000
TOTAL UNITED STATES DEPARTMENT OF DEFENSE							8,000					8,000
UNITED STATES DEPARTMENT OF JUSTICE:												
PASSED THROUGH THE MARYLAND GOVERNOR'S OFFICE OF CRIME CONTROL & PREVENTION												
CRIME VICTIM ASSISTANCE	16.575	VOCA-2014-0012									$ 50,393	50,393
CRIME VICTIM ASSISTANCE	16.575	VOCA-2014-1566									67,090	67,090
TOTAL UNITED STATES DEPARTMENT OF JUSTICE											117,483	117,483
UNITED STATES DEPARTMENT OF TRANSPORTATION:												
PASSED THROUGH THE UNIVERSITY OF FLORIDA												
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010294					90,000					90,000
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010293					84,999					84,999
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010289					66,396					66,396
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010295					64,937					64,937
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010290					68,042					68,042
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010292					63,641					63,641
HIGHWAY PLANNING & CONSTRUCTION	20.205	UFDSP00010291					66,396					66,396
TOTAL UNITED STATES DEPARTMENT OF TRANSPORTATION							504,411					504,411
UNITED STATES DEPARTMENT OF EDUCATION:												
PASSED THROUGH THE FLORIDA DEPARTMENT OF HEALTH												
SPECIAL EDUCATION GRANTS FOR INFANTS & FAMILIES WITH DISABILITIES	84.181	COQTT					485,576					485,576
TOTAL UNITED STATES DEPARTMENT OF EDUCATION							485,576					485,576
UNITED STATES DEPARTMENT OF HEALTH & HUMAN SERVICES:												
PASSED THROUGH THE MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE												
PUBLIC HEALTH & SOCIAL SERVICES EMERGENCY FUND	93.003	Not Available	$ 273,719	124,321	$ 34,771							432,811
PASSED THROUGH THE MATERNAL & CHILD HEALTH BUREAU												
PASSED THROUGH HEMOPHILIA OF GEORGIA INC												
MATERNAL & CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	93.110	5 H30 MC 24046-03-00					14,400					14,400
PASSED THROUGH THE FLORIDA DEPARTMENT OF HEALTH												
INJURY PREVENTION & CONTROL RESEARCH & STATE & COMMUNITY BASED PROGRAMS	93.136	RFA 13013					5,000					5,000
PASSED THROUGH THE CENTERS FOR DISEASE CONTROL & PREVENTION												
PASSED THROUGH THE AMERICAN THROMBOSIS & HEMOSTATSIS NETWORK												
PASSED THROUGH HEMOPHILIA OF GEORGIA INC												
DISABILITIES PREVENTION	93.184	5U27DD000862-04					34,000					34,000
DISABILITIES PREVENTION	93.184	5U27DD000862-03					5,000					5,000
PASSED THROUGH JOHNS HOPKINS UNIVERSITY												
HEALTH CARE INNOVATION AWARDS	93.610	1C1CMS331053-01-00							$ 47,916	$ 8,029,785		8,077,701
PASSED THROUGH JOHNS HOPKINS UNIVERSITY												
STRONG START FOR MOTHERS & NEWBORNS	93.611	Not Available								236,685		236,685
PASSED THROUGH JOHNS HOPKINS REAL ESTATE												
TRANS-NIH RECOVERY ACT RESEARCH SUPPORT	93.701	1G20RR031203-01		5,507,960								5,507,960
PASSED THROUGH HEALTHY START COALITION OF PINELLAS COUNTY												
MEDICAL ASSISTANCE PROGRAM	93.778	Not Available						$ 142				142
PASSED THROUGH THE FLORIDA DEPARTMENT OF HEALTH												
HEALTHY START INITIATIVE	93.926	PSA74					26,741					26,741
HEALTHY START INITIATIVE DIRECT AWARD	93.926	H49MC27805-01-00					617,536					617,536
HEALTHY START INITIATIVE DIRECT AWARD	93.926	H49MC27805-02-00					66,170					66,170
PASSED THROUGH ANNE ARUNDEL COUNTY												
BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	93.958	MH 575 OTH		36,367								36,367
PASSED THROUGH THE CITY OF BALTIMORE (BEHAVIORAL HEALTH SYSTEM BALTIMORE)												
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	15-114-5414		704,170								704,170
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	15-114-5413		60,202								60,202
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	ABG-5415-12	328,272									328,272
PASSED THROUGH THE BALTIMORE HEALTH DEPARTMENT												
PREVENTATIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES	93.977	35469		25,000								25,000
PREVENTATIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES	93.977	35822		25,000								25,000

See accompanying notes to the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Financial Assistance.

The Johns Hopkins Health System Corporation and Affiliates
Schedule of Expenditures of Federal Awards, continued
Year Ended June 30, 2015

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA #	AWARD IDENTIFICATION #	EXPENDITURES BY AFFILIATE JHH	JHBMC	JHSH	JHSMH	ACH	ACHS	JHCP	JHHC	JHHGH	TOTAL FEDERAL EXPENDITURES
PASSED THROUGH HEALTHY START COALITION OF PINELLAS COUNTY												
MATERNAL & CHILD HEALTH SERVICES BLOCK GRANT	93.994	Not Available						4,291				4,291
RESEACH AND DEVELOPMENT CLUSTER												
NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS AND STROKE	93.UNK	HHSN271201300039C			853,365				173,346			1,026,711
NATIONAL HEART, LUNG, AND BLOOD INSTITUTE - MRI	93.UNK	HHSN268201300016C			900,470							900,470
NATIONAL HEART, LUNG, AND BLOOD INSTITUTE - OPEN HEART SURGERY	93.UNK	HHSN268201300001C			3,967,091				955,973			4,923,064
PASSED THROUGH JOHNS HOPKINS UNIVERSITY												
CANCER DETECTION & DIAGNOSTIC RESEARCH	93.394	2002655831						18,186				18,186
PASSED THROUGH CHILDREN'S HOSPITAL OF PHILADELPHIA ON BEHALF OF CHILDREN'S ONCOLOGY GROUP												
CANCER TREATMENT RESEARCH	93.395	FP00013087_SUB09_01						2,775				2,775
CANCER TREATMENT RESEARCH	93.395	FP00015221_SUB34_01						122,307				122,307
CANCER TREATMENT RESEARCH	93.395	FP00015898_SUB75_01						3,000				3,000
CANCER TREATMENT RESEARCH	93.395	FP00015736_SUB15_01						2,348				2,348
PASSED THROUGH JOHNS HOPKINS UNIVERSITY												
CANCER TREATMENT RESEARCH	93.395	1U10CA80802-01				$ 71,717						71,717
PASSED THROUGH THE UNIVERSITY OF SOUTH FLORIDA												
CANCER TREATMENT RESEARCH	93.395	6119-1222-00-G						2,000				2,000
CANCER TREATMENT RESEARCH	93.395	1257-1005-00-B						5,181				5,181
PASSED THROUGH JOHNS HOPKINS UNIVERSITY												
CARDIOVASCULAR DISEASES RESEARCH	93.837	1P50HL106187-01							49,219			49,219
PASSED THROUGH NEW ENGLAND RESEARCH INSTITUTE												
CARDIOVASCULAR DISEASES RESEARCH	93.837	MCTA						3,000				3,000
PASSED THROUGH UNIVERSITY OF MICHIGAN												
CARDIOVASCULAR DISEASES RESEARCH	93.837	3003050729						6,747				6,747
PASSED THROUGH THE NATIONAL MARROW DONOR PROGRAM												
LUNG DISEASES RESEARCH	93.837	519-RDSafe						500				500
PASSED THROUGH THE REGENTS OF THE UNIVERSITY OF CALIFORNIA												
LUNG DISEASES RESEARCH	93.838	6706sc 2						4,473				4,473
PASSED THROUGH SEATTLE CHILDREN'S HOSPITAL												
LUNG DISEASES RESEARCH	93.838	11047SUB						5,018				5,018
PASSED THROUGH THE NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS & STROKE												
PASSED THROUGH THE UNIVERSITY OF WASHINGTON												
EXTRAMURAL RESEARCH PROGRAMS IN THE NEUROSCIENCES AND NEUROLOGICAL DISORDERS	93.853	762299						23,571				23,571
PASSED THROUGH THE CHILDREN'S HOSPITAL OF PHILADELPHIA												
ALLERGY, IMMUNOLOGY, & TRANSPLANTATION RESEARCH	93.855	FP00015737_SUB01_02						6,500				6,500
PASSED THROUGH DUKE UNIVERSITY												
ALLERGY, IMMUNOLOGY, & TRANSPLANTATION RESEARCH	93.855	FP00015737_SUB01_02						1,000				1,000
PASSED THROUGH JOHNS HOPKINS UNIVERSITY												
AGING RESEARCH	93.866	1U01AG048270-01							3,800			3,800
PASSED THROUGH THE UNIVERSITY OF SOUTH FLORIDA	93.UNK	USF Account #: 6119114400						5,540				5,540
PASSED THROUGH THE UNIVERSITY OF SOUTH FLORIDA	93.UNK	HHSN- 275201000003I						11,000				11,000
PASSED THROUGH THE NATIONAL MARROW DONOR PROGRAM	93.UNK	Not Available						1,500				1,500
TOTAL RESEARCH & DEVELOPMENT CLUSTER					5,720,926	71,717		224,646	1,182,338			7,199,627
TOTAL UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES			601,991	6,483,020	5,755,697	71,717	768,847	229,079	1,230,254	8,266,470		23,407,075
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 601,991**	**$ 6,501,905**	**$ 5,755,697**	**$ 71,717**	**$ 1,766,834**	**$ 229,079**	**$ 1,230,254**	**$ 8,266,470**	**$ 117,483**	**$ 24,541,430**

See accompanying notes to the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Financial Assistance.

The Johns Hopkins Health System Corporation and Affiliates
Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2015

STATE GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	STATE CSFA NUMBER	PASS-THROUGH ENTITY OR AWARD IDENTIFICATION NUMBER	EXPENDITURES BY AFFILIATE ACH	 ACHS	TOTAL STATE EXPENDITURES
STATE OF FLORIDA:					
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF ECONOMIC OPPORTUNITY					
LOCAL ECONOMIC DEVELOPMENT INITIATIVES	40.012	SL005	$ 1,957,244		$ 1,957,244
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF HEALTH					
TRAUMA CENTER FINANCIAL SUPPORT	64.075	TRA-01	108,660		108,660
MAINTENANCE OF EFFORT:					
PASSED THROUGH THE STATE OF FLORIDA DEPARTMENT OF HEALTH					
SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES		COQTT	1,743,969		1,743,969
PASSED THROUGH HEALTHY START COALITION OF PINELLAS COUNTY					
MATERNAL & CHILD HEALTH SERVICES BLOCK GRANT		Not Available		$ 19,282	19,282
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			**$ 3,809,873**	**$ 19,282**	**$ 3,829,155**

See accompanying notes to the Schedule of Expenditures of Federal Awards and the Schedule of Expenditures of State Financial Assistance.

1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and Florida state financial assistance (the "Schedules") include the federal and state grant transactions of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") under programs of the federal government and state of Florida for the year ended June 30, 2015. Because the Schedules present only a selected portion of the operations of JHHS, they are not intended to and do not present the financial position, results of operations, or cash flows of JHHS.

For purposes of the Schedules, federal and state awards include all awards in the form of grants, contracts, and similar agreements entered into directly between JHHS and agencies and departments of the federal government, non-federal pass-through entities, and the state of Florida. Federal CFDA, State CSFA, and pass-through identification numbers are included when available.

2. Summary of Significant Accounting Policies

The Schedules reflect federal and state award program expenditures recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

3. Awards Provided to Affiliated Entities

Of the federal expenditures presented in the Schedules, the following federal awards were provided between JHHS affiliates:

Program Title	Contract Number	Amount Provided to Affiliate
Research and Development	Various	$ 1,129,319
Total Expenditures provided to Affiliate		$ 1,129,319

4. Classification of Certain Expenditures as Maintenance of Effort

For the contract period beginning July 1, 2009, the State of Florida (the “State”) determined that State funds expended under contract COQTT were considered maintenance of effort for a federal program rather than state financial assistance. State funds expended subsequent to the State's determination are considered maintenance of effort and are reported in the Schedule of State Financial Assistance.

Part II

Reports on Compliance and Internal Control

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS"), which comprise the combined balance sheets as of June 30, 2015 and 2014, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements and have issued our report thereon dated September 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered JHHS' internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of JHHS' internal control. Accordingly, we do not express an opinion on the effectiveness of JHHS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether JHHS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 23, 2015

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

Report on Compliance for Each Major Federal and State Program

We have audited The Johns Hopkins Health System Corporation and Affiliates' ("JHHS") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement*, Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General that could have a direct and material effect on each of JHHS' major federal and state programs for the year ended June 30, 2015. JHHS' major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of JHHS' major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about JHHS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of JHHS' compliance.

Opinion on Each Major Federal and State Program

In our opinion, JHHS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

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Report on Internal Control Over Compliance

Management of JHHS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered JHHS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of JHHS' internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133, Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Baltimore, Maryland
November 17, 2015

Part III
Findings

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal Control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
Material weakness identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 section .510(a)	None reported

Identification of major Federal programs:

Federal CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster
93.701	Translational Molecular Imaging Center Core Facility
93.610	Health Care Innovation Award
20.205	Safe Routes to School

Dollar threshold used to distinguish between Federal governmental assistance Type A and Type B programs:	$736,243
Auditee qualified as low-risk auditee?	Yes

State Awards

Internal Control over major programs:

Material weakness identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) and/or Section 215.97, *Florida Statutes*; and Chapter 10.650 *Rules of the Auditor General*	None reported

Identification of major State programs:

State CSFA Number	Name of State Program or Cluster
40.012	Local Economic Development Initiatives

Dollar threshold used to distinguish between State Financial Assistance Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Findings and Questioned Costs

There were no findings required to be reported under OMB Circular A-133.

Section IV – State Award Findings and Questioned Costs

There were no findings required to be reported under Section 215.97, Florida Statutes; or Chapter 10.650 Rules of the Auditor General.

Prior Year Federal Award Findings and Questioned Costs

There were no findings or questioned costs from prior years reported under OMB Circular A-133 that require an update in this report.

Prior Year State Award Findings and Questioned Costs

There were no findings or questioned costs from prior years reported under Section 215.97, Florida Statutes; or Chapter 10.650 Rules of the Auditor General that require an update in this report.