The Johns Hopkins Health System Corporation and Affiliates

Reports on Federal and Florida State Awards in Accordance with Uniform Guidance; Section 215.97, Florida Statutes; and Chapter 10.650, Rules of the Auditor General

June 30, 2017

Federal Entity Identification Number 52-1465301

The Johns Hopkins Health System Corporation and Affiliates
Index
June 30, 2017

Part I

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

Year Ended June 30, 2017

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS"), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to JHHS' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of JHHS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

pwc

Opinion

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JHHS as of June 30, 2017 and 2016, and the results of their operations and changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 27, 2017 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, 2017. 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 27, 2017

The Johns Hopkins Health System Corporation and Affiliates
Consolidated Balance Sheets
June 30, 2017 and 2016
(in thousands)

ASSETS	2017	2016
Current assets:		
Cash and cash equivalents	$ 566,331	$ 425,801
Short-term investments	152,434	36,688
Assets whose use is limited - used for current liabilities	14,183	13,593
Patient accounts receivable, net of estimated uncollectibles of $151,396 and $173,199 as of June 30, 2017 and 2016, respectively	539,552	616,137
Due from others, current portion	93,437	72,584
Due from affiliates, current portion	30,917	24,546
Inventories of supplies	112,809	110,485
Estimated malpractice recoveries, current portion	44,653	47,031
Prepaid expenses and other current assets	69,741	57,624
Total current assets	1,624,057	1,404,489
Assets whose use is limited		
By long-term debt agreement for:		
Construction funds	-	427
By donors or grantors for:		
Future campus development	853	1,082
Pledges receivable	34,912	30,260
Other	103,696	96,315
By Board of Trustees	626,180	756,045
Interest in net assets of Howard Hospital Foundation	-	15,307
Other	26,018	39,107
Total assets whose use is limited	791,659	938,543
Investments	2,740,332	1,873,217
Property, plant and equipment	4,971,701	4,733,655
Less: allowance for depreciation and amortization	(2,081,138)	(1,917,890)
Total property, plant and equipment, net	2,890,563	2,815,765
Due from affiliates, net of current portion	96,390	109,382
Due from others, net of current portion	-	796
Estimated malpractice recoveries, net of current portion	37,392	35,300
Swap counterparty deposit	46,095	162,740
Other assets	37,124	29,271
Total assets	$ 8,263,612	$ 7,369,503

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

The Johns Hopkins Health System Corporation and Affiliates
Consolidated Balance Sheets, continued
June 30, 2017 and 2016
(in thousands)

LIABILITIES AND NET ASSETS	2017	2016
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 542,775	$ 37,836
Accounts payable and accrued liabilities	561,591	597,555
Medical claims reserve	119,631	95,110
Deferred revenue	129,124	10,785
Due to affiliates, current portion	12,905	7,433
Accrued vacation	78,272	70,737
Advances from third-party payors	139,507	159,474
Current portion of estimated malpractice costs	47,244	49,539
Total current liabilities	1,631,049	1,028,469
Long-term debt and obligations under capital leases, net of current portion	1,588,282	1,600,537
Estimated malpractice costs, net of current portion	130,057	126,255
Net pension liability	761,439	789,110
Other long-term liabilities	285,729	371,061
Total liabilities	4,396,556	3,915,432
Net assets:		
Unrestricted	3,683,545	3,275,498
Temporarily restricted	123,248	120,650
Permanently restricted	60,263	57,923
Total net assets	3,867,056	3,454,071
Total liabilities and net assets	$ 8,263,612	$ 7,369,503

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

The Johns Hopkins Health System Corporation and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Operating revenues:		
Net patient service revenue before provision for bad debts	$ 5,471,917	$ 5,193,442
Provision for bad debts	(100,796)	(85,748)
Net patient service revenue, less the provision for bad debts	5,371,121	5,107,694
Other revenue	693,717	631,290
Investment income	65,387	61,281
Net assets released from restrictions used for operations	22,786	10,842
Total operating revenues	6,153,011	5,811,107
Operating expenses:		
Salaries, wages and benefits	2,253,722	2,165,588
Purchased services	2,403,249	2,193,263
Supplies and other	1,017,610	946,756
Interest	49,761	33,568
Depreciation and amortization	275,512	262,317
Total operating expenses	5,999,854	5,601,492
Income from operations	153,157	209,615
Non-operating revenues and expenses:		
Interest expense on swap agreements	(24,405)	(26,555)
Change in fair value of interest rate swap agreements	80,794	(87,596)
Net realized and changes in unrealized gains (losses) on investments	195,103	(60,672)
Loss on advance refunding of debt	(15,530)	-
Other components of net periodic pension cost	(58,676)	(41,802)
Other non-operating expenses	(29,781)	(35,246)
Excess of revenues over (under) expenses before noncontrolling interests	300,662	(42,256)
Noncontrolling interests	4,098	30,695
Excess of revenues over (under) expenses	304,760	(11,561)
Contributions from (to) affiliates	4,273	(105)
Change in funded status of defined benefit plans	72,873	(263,250)
Net assets released from restrictions used for purchases of property, plant, and equipment	14,392	9,326
Noncontrolling interests	(4,098)	(30,695)
Other	15,847	61,724
Increase (decrease) in unrestricted net assets	408,047	(234,561)
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	42,427	17,190
Net assets released from restrictions used for purchases of property, plant, and equipment	(14,392)	(9,326)
Net assets released from restrictions used for operations	(22,786)	(10,842)
Other	(2,651)	(62,830)
Increase (decrease) in temporarily restricted net assets	2,598	(65,808)
Changes in permanently restricted net assets:		
Gifts, grants and bequests	2,340	(824)
Increase (decrease) in permanently restricted net assets	2,340	(824)
Increase (decrease) in net assets	412,985	(301,193)
Net assets at beginning of year	3,454,071	3,755,264
Net assets at end of year	$ 3,867,056	$ 3,454,071

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

The Johns Hopkins Health System Corporation and Affiliates
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016
(in thousands)

	2017	2016
Operating activities:		
Change in net assets	$ 412,985	$ (301,193)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	273,860	260,320
Provision for bad debts	100,796	85,748
Net realized and changes in unrealized (gains) losses on investments	(195,103)	60,704
Change in fair value of interest rate swap agreements	(80,794)	87,596
Change in funded status of defined benefit plans	(72,873)	263,250
Restricted contributions and investment income received	(37,717)	(10,621)
Gains on and returns on equity investments	(11,869)	(25,979)
Advance refunding of debt	15,530	-
Other operating activities	(14,984)	2,123
Change in assets and liabilities:		
Patient accounts receivable	(24,212)	(128,197)
Inventories of supplies, prepaid expenses and other current assets	(23,542)	(48,108)
Due from affiliates, net	2,158	1,563
Pledges receivable	2,380	8,005
Swap counterparty deposit and other assets	124,699	46,984
Accounts payable, accrued liabilities and accrued vacation	(31,184)	52,875
Medical claims reserve	24,521	19,820
Deferred revenue	117,440	(73,387)
Advances from third-party payors	(19,967)	27,637
Accrued pension benefit costs	36,540	(10,375)
Estimated malpractice costs	2,189	(3,075)
Other long-term liabilities	(5,065)	2,431
Net cash and cash equivalents provided by operating activities	595,788	318,121
Investing activities:		
Purchases of property, plant and equipment	(340,029)	(274,851)
(Investment in) return of equity investments	(22,986)	4,452
Purchases of investment securities	(2,205,910)	(1,421,667)
Sales of investment securities	1,585,300	1,257,529
Payments received on Affiliate notes	17,703	17,109
Advances on Affiliate notes	(4,252)	(26,536)
Other investing activities	350	(5,895)
Net cash and cash equivalents used in investing activities	(969,824)	(449,859)
Financing activities:		
Proceeds from restricted contributions and investment income received	37,717	10,621
Proceeds from long-term borrowings	667,348	105,810
Repayment of long-term debt and obligations under capital lease	(202,876)	(141,407)
Contributions attributable to noncontrolling interests	10,010	859
Other financing activities	2,367	2,167
Net cash and cash equivalents provided by (used in) financing activities	514,566	(21,950)
Change in cash and cash equivalents	140,530	(153,688)
Cash and cash equivalents at beginning of year	425,801	579,489
Cash and cash equivalents at end of year	$ 566,331	$ 425,801

	2017	2016
Supplemental disclosure of cash flow information:		
Purchases of property and equipment in accounts payable	$ 21,077	$ 19,520
Assets acquired under capital leases	13,869	17,027
Interest paid	73,513	69,304

The accompanying notes are an integral part of these consolidated 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, Johns Hopkins All Children's' Hospital, Inc. ("JHACH"), 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 that provides temporary nursing and clerical staffing, promotes ambulatory care arrangements in support of JHHS, and houses commercial supply chain business units, 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 collectively known as the "Affiliates."

The University is a privately endowed institution that provides education and related services to students and others, research and related services to sponsoring organizations, and professional medical services to patients. The University is a separate legal entity from JHHSC with its own Board of Trustees. The University does not assume any responsibility or liability for the financial obligations of JHHS. The University owns membership interests in some of the affiliates of JHHS. Professional clinical services are also provided by members of the University's faculty to patients at JHHS hospitals.

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. Significant estimates made by management include the estimated net realizable value of patient receivables, valuation of alternative investments, and the actuarially determined pension and other postretirement benefits, malpractice and self-insurance reserves.

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

Principles of consolidation. The consolidated 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 Consolidated 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 Consolidated Statements of Operations and Changes in Net Assets as investment income.

Due from others. Due from others balances primarily include receivables related to the hospital discharge pharmacies.

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 for future capital improvements, pledges receivable, beneficial interest remainder trusts, 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 classified as non-current on the Consolidated Balance Sheets include investments that are not expected to be converted to cash within one year.

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 Consolidated 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. 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 2017 or 2016.

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 Consolidated 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 Consolidated 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 Consolidated 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 via majority voting interest, 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 controlling financial interest, 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 Consolidated 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. Changes in unrestricted net assets during the year ended June 30, 2016 reflect a $61.8 million reclassification of funds that were previously classified as temporarily restricted net assets as of June 30, 2015.

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 condition is satisfied. 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 Consolidated 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 Consolidated 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 Consolidated Balance Sheets and grant income is included in other revenue in the Consolidated 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 payments for management services from Johns Hopkins University, JHMSC, and EHP, are recognized when obligated to provide the service, and are included in other revenue in the Consolidated Statements of Operations and Changes in Net Assets.

Other revenue. Other revenue contains ancillary services such as discharge pharmacies, lab services, community programs, grants and shared services provided to non-consolidating affiliates.

Excess of revenues over expenses. The Consolidated 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, change in funded status of defined benefit plans, 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, 2017 and 2016, 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, other non-service cost components of net periodic pension cost, 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 consolidated 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, 2017 and 2016 amounted to $30.7 million and $2.3 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’ consolidated financial statements during the years ended June 30, 2017 and 2016.

New accounting standards. In May 2014, the FASB issued ASU 2014-09, “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. JHHS is evaluating the impact that this standard will have on the consolidated financial statements beginning in fiscal year 2019.

In August 2014, the FASB issued ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”, which requires management of an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued. This update is effective for annual periods ending after December 15, 2016. No conditions or events were noted that raise substantial doubt about JHHS' ability to continue as a going concern. Accordingly, the adoption of this standard did not have a material impact on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities". ASU 2016-01 addresses accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Non-public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The amendments in ASU 2016-01 are effective for years beginning after December 15, 2018, and early adoption is permitted. JHHS is evaluating the impact this standard will have on the consolidated financial statements beginning in fiscal year 2020.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". ASU 2016-02 will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting— will remain largely unchanged from current Generally Accepted Accounting Principles (Topic 840 in the Accounting Standards Codification). The guidance is effective for fiscal years beginning after December 15, 2018 for JHHS, and early adoption is permitted. JHHS is in process of assessing the impact of this standard on the consolidated financial statements beginning in fiscal year 2020.

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities". The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other users. The standard is effective for fiscal years beginning after December 15, 2017. JHHS is evaluating the impact of this standard on the consolidated financial statements beginning in fiscal year 2019.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent to alleviate diversity in practice. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. JHHS is currently evaluating the impact of this update on the Consolidated Statements of Cash Flows beginning in fiscal year 2020.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash", which clarifies the classification and presentation of changes in restricted cash in the statement of cash flows. The guidance requires reporting entities to explain the changes in the combined total of restricted and unrestricted cash and cash equivalent balances in the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. JHHS is currently evaluating the impact of this update on the Consolidated Statements of Cash Flows beginning in fiscal year 2020.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The amendments in this update require employers to report the service cost component of pension expense in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, such as interest cost, amortization of prior service cost, and gains or losses on pension plan assets, are required to be presented separately, outside of net operating income. JHHSC adopted this new accounting standard in fiscal year 2017. As a result, amounts related to non-service cost components of pension expense in fiscal year 2016 have been reclassified from the salaries, wages and benefits financial statement line item in the operating section of the Consolidated Statements of Operations and Changes in Net Assets to other components of net periodic pension cost in the non-operating revenues and expenses section. Non-service cost components of pension expense were $58.7 million and $41.8 million for the fiscal years ended June 30, 2017 and 2016, respectively. The adoption of this accounting standard had no impact to Excess of revenues over (under) expenses on the Consolidated Statements of Operations and Changes in Net Assets or to the Consolidated Balance Sheets or the Consolidated Statements of Cash Flows.

Reclassifications. Certain amounts from the prior year have been reclassified in order to conform to the current year presentation.

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, JHH and JHBMC have the opportunity to receive additional rate authority for any growth in the volume of out of state patients receiving care at those hospitals. When the hospitals’ out of state volume exceeds a revenue floor established by the HSCRC, the hospitals will be allowed to recognize incremental revenues at a 50% variable cost factor. This variable cost factor can then increase to 75% when that out of state revenue increases to a certain level. For HCGH and SHI, out of state volume is currently included in 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 JHACH 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 net 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.

JHACH's Medicaid interim rates are based on the Medicaid cost report which has been audited by the fiscal intermediary for the cost report years 2009, 2010, 2011, 2012 and 2013. The cost report for 2014 is in the process of being audited by the fiscal intermediary as of June 30, 2017. Final audited rates for 2009, 2010, 2011, 2012, and 2013 have been issued by Medicaid as of June 30, 2017. Estimated impacts of the anticipated changes in interim rates after audit of the cost reports are recorded at year end. Substantial time may elapse between receipt of a final audited cost report and the actual processing of the audited rates by the State of Florida ("State") Agency for Health Care Administration ("AHCA").

During the year ended June 30, 2017, SMH received no final audits for Medicare cost report years. As of June 30, 2017, SMH has Medicare cost report years 2010 through 2016 open.

Capitation payments included in net patient service revenue are recognized as premium revenues during the period in which the Affiliates are obligated to provide services to its enrollees at contractually determined rates. For the years ended June 30, 2017 and 2016, capitation revenue recognized was $1.785 billion and $1.539 billion, respectively.

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 $47.8 million and $43.7 million for the years ended June 30, 2017 and 2016, 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 consolidated 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 Consolidated 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, 2017 from these major payor sources is as follows:

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 5,427,070	$ 44,847	$ 5,471,917

Patient service revenue, net of contractual allowances (but before the provision for bad debts), recognized in the year ending June 30, 2016 from these major payor sources is as follows:

	Third-Party Payors	Self-pay	Total All Payors
Patient service revenue (net of contractual allowances)	$ 5,095,483	$ 97,959	$ 5,193,442

The following table depicts the mix of gross accounts receivable from patients and third-party payors as of June 30, 2017 and 2016:

	2017	**2016**
Medicare	18.5%	18.6%
Medicaid	10.7%	12.2%
Blue Cross and Blue Shield	12.2%	12.2%
Medicaid managed care organizations	12.3%	11.4%
Self pay	10.3%	8.0%
Other third-party payors	36.0%	37.6%
Total	100.0%	100.0%

3. Pledges Receivable

As of June 30, 2017 and 2016, the value of pledges receivable before discounts was $42.3 million and $34.7 million, respectively. Pledges receivable have been discounted at rates ranging from 0.11% to 3.52% and consist of the following (in thousands):

As of June 30, 2017	**1 Year**	**2 –5 Years**	**5 Years or Greater**	**Totals**
Departmental campaigns	$ 3,810	$ 11,134	$ 330	$ 15,274
Future campus development	3,816	6,109	9,713	19,638
	$ 7,626	$ 17,243	$ 10,043	$ 34,912

As of June 30, 2016	**1 Year**	**2 –5 Years**	**5 Years or Greater**	**Totals**
Departmental campaigns	$ 3,221	$ 7,751	$ 1,993	$ 12,965
Future campus development	5,812	2,468	9,015	17,295
	$ 9,033	$ 10,219	$ 11,008	$ 30,260

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, 2017 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 620,978	$ 620,978	$ -
Commercial paper (1)	99,832	99,832	-
Certificates of deposit (1)	6,833	-	6,833
U.S. Treasuries (2)	445,477	-	445,477
Corporate bonds (2)	526,901	-	526,901
Asset backed securities (2)	358,793	-	358,793
Equities and equity funds (3)	1,144,969	1,144,969	-
Fixed income funds (4)	186,940	186,940	-
Totals	$ 3,390,723	$ 2,052,719	$ 1,338,004
Liabilities			
Interest rate swap agreements (5)	$ 220,089	$ -	$ 220,089

The following table presents the financial instruments carried at fair value as of June 30, 2016 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	$ 464,821	$ 464,821	$ -
Commercial paper (1)	63,933	63,933	-
Certificates of deposit (1)	1,826	-	1,826
U.S. Treasuries (2)	344,534	-	344,534
Corporate bonds (2)	352,578	-	352,578
Asset backed securities (2)	249,694	-	249,694
Equities and equity funds (3)	897,545	897,545	-
Fixed income funds (4)	148,781	148,781	-
Totals	$ 2,523,712	$ 1,575,080	$ 948,632
Liabilities			
Interest rate swap agreements (5)	$ 300,883	$ -	$ 300,883

(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. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1.

(4) Fixed income funds are investments in mutual funds. 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.

(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 2017 and 2016, 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 investments that are not traded on national exchanges or over-the counter markets. These investments are valued utilizing the net asset values ("NAV") provided by the underlying investment companies unless management determines some other valuation is more appropriate. There are no unfunded commitments related to JHHS' investments measured using NAV as a practical expedient.

The following table displays information by strategy for investments measured using NAV as a practical expedient as of June 30, 2017 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	$ 154,498	Daily or monthly	5 days
Equity long/short hedge funds (2)	76,005	Monthly or quarterly	5 to 60 days
Hedge Fund of Funds (3)	60,658	Quarterly	45 to 70 days
Commingled Equity Funds (4)	163,947	Daily or monthly	1 to 30 days
Commingled Fixed Income (5)	85,611	Daily or monthly	1 to 5 days
Event driven hedge funds (6)	20,100	Quarterly	60 days
Total	$ 560,819		

The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2016 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	$ 144,427	Monthly	5 days
Equity long/short hedge funds (2)	90,560	Monthly or quarterly	5 to 60 days
Hedge Fund of Funds (3)	89,110	Monthly or quarterly	25 to 70 days
Commingled Equity Funds (4)	102,161	Daily or monthly	6 to 30 days
Commingled Fixed Income (5)	45,353	Daily or monthly	1 to 5 days
Total	$ 471,611		

(1) Absolute return hedge funds: Investment managers who seek low correlation to global equity markets. Strategies have the ability to identify opportunities across multiple sectors, asset classes, and geographic regions.

(2) Equity long/short hedge funds: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. Strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure and leverage employed.

(3) Hedge Fund of Funds: Invest with multiple hedge fund managers to create a diversified portfolio of hedge funds. Hedge Fund of Funds strategies serve to dampen volatility within the overall investment portfolio, while offering the investor more frequent liquidity terms and lower capital requirements as compared to investing with an individual hedge fund manager. The Fund of Funds manager has discretion in choosing the individual investment strategies for the portfolio. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers across multiple strategies.

(4) Commingled equity funds: Long-only equity strategies that invest exclusively in publicly traded companies, though the funds are not traded on a public exchange.

(5) Commingled fixed income: Fixed income strategies that invest in publicly-issued debt instruments, though the funds are not traded on a public exchange.

(6) Event-Driven hedge funds: Investment Managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.

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 $2.3 billion and $1.7 billion for both the years ended June 30, 2017 and 2016, 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):

	2017 Carrying Amount	2016 Carrying Amount
Cash and cash equivalents measured at fair value	$ 620,978	$ 464,821
Cash and cash equivalents included in AWUIL	(54,647)	(39,020)
Total cash and cash equivalents	$ 566,331	$ 425,801
U.S. Treasuries	362,684	193,361
Commercial paper	99,832	63,933
Certificates of deposit	6,833	1,826
Corporate bonds	394,011	202,940
Asset backed securities	277,994	135,194
Fixed income funds	159,887	105,895
Equities and equity funds	773,269	510,726
Short and long-term investments measured at fair value	2,074,510	1,213,875
Investments in affiliates	261,129	229,918
Investments measured at NAV as a practical expedient	557,127	466,112
Total short and long-term investments	$ 2,892,766	$ 1,909,905

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

	2017 Carrying Amount	2016 Carrying Amount
Commercial paper	$ -	$ -
U.S. Treasuries	82,793	151,173
Corporate bonds	132,890	149,638
Asset backed securities	80,799	114,500
Fixed income funds	27,053	42,886
Equities and equity funds	371,700	386,819
Assets whose use is limited measured at fair value	695,235	845,016
Cash in AWUIL reported as cash and cash equivalents on leveling table	54,647	39,020
Investments measured at NAV as a practical expedient	3,692	5,499
Pledges receivable	34,912	29,820
Beneficial interest remainder trust	16,617	16,510
Interest in net assets of HHF	-	15,307
Other	739	964
Total assets whose use is limited	$ 805,842	$ 952,136

The investment and assets whose use is limited balances noted above include amounts invested in pooled accounts shared by the affiliates of JHHS. The amounts held within the liquid, intermediate and other investment pools were $272.5 million, $956.4 million, and $1.1 billion, respectively, as of June 30, 2017. The amounts held within the liquid, intermediate and other investment pools were $84.9 million, $585.9 million, and $778.8 million, respectively as of June 30, 2016.

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

	2017	2016
Realized gains on investments	$ 27,436	$ 14,697
Changes in unrealized gains (losses) on investments	167,667	(75,369)
Total	$ 195,103	$ (60,672)

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

Investment	Cost / Equity	%	2017	2016
Johns Hopkins International, LLC (“JHI”)	Equity	50.00%	$ 57,460	$ 49,176
Johns Hopkins Home Care Group, Inc. (“JHHCG”)	Equity	50.00%	10,119	8,820
FSK Land Corporation	Equity	50.00%	11,810	9,701
Mt. Washington Pediatric Hospital and Foundation	Equity	50.00%	41,396	36,368
JHMI Utilities, LLC	Equity	50.00%	16,384	13,660
Sibley-Suburban Home Health Agency, Inc.	Equity	50.00%	6,009	6,268
West County, LLC	Equity	50.00%	6,699	8,344
Medbridge Healthcare	Equity	25.00%	6,612	10,358
Baltimore County Dialysis, LLC	Equity	49.00%	11,442	-
JH Surgery Center	Equity	50.00%	8,060	-
MCIC Bermuda	Cost	10.00%	64,467	65,253
Other			20,671	21,970
			$ 261,129	$ 229,918

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, 2017 and June 30, 2016 (in thousands):

	2017	2016
Assets	$ 601,900	$ 591,556
Liabilities	365,727	377,836
Revenues	307,407	288,954
Expenses	280,820	262,586

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 unrestricted net asset activity attributable to the noncontrolling interests consisted of the following as of June 30, (in thousands):

	2017	2016
Net assets attributable to noncontrolling interests at beginning of period	$ 48,523	$ 78,359
Losses attributable to noncontrolling interests	(4,098)	(30,695)
Contributions attributable to noncontrolling interests	10,010	859
Net assets attributable to noncontrolling interests at end of period	$ 54,435	$ 48,523

6. Property, Plant and Equipment

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

	2017		2016	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land and land improvements	$ 172,840	$ 17,426	$ 169,885	$ 14,579
Buildings and improvements	2,406,928	928,269	2,211,038	844,124
Fixed and moveable equipment	1,966,474	1,000,594	1,834,166	927,715
Capitalized software	170,856	134,849	155,928	131,472
Construction in progress	254,603	-	362,638	-
	$ 4,971,701	$ 2,081,138	$ 4,733,655	$ 1,917,890

Accruals for purchases of property, plant and equipment as of June 30, 2017 and 2016 amounted to $21.1 million and $19.5 million, respectively, and are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2017 and 2016 amounted to $275.5 million and $262.3 million, respectively.

During the year ended June 30, 2017 and 2016, JHHS retired long-lived assets determined to have no future value. During 2017, the original cost and corresponding accumulated depreciation of these long-lived assets was $104.2 million and $103.4 million, respectively. During 2016, the original cost and corresponding accumulated depreciation of these long-lived assets was $118.6 million and $113.9 million, respectively. No proceeds from retirement were received in 2017 or 2016.

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):

	2017	2016
Balance, July 1	$ 126,705	$ 106,885
Incurred related to:		
Current year	1,317,798	1,207,371
Prior year	(28,199)	(14,672)
Total incurred	1,289,599	1,192,699
Paid related to:		
Current year	1,156,591	1,080,666
Prior year	98,506	92,213
Total paid	1,255,097	1,172,879
Balance, June 30	$ 161,207	$ 126,705

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 consolidation.

8. Debt

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

	Interest Rate(s)	Final Maturity	Renewal Date	Issued Amount	2017	2016
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%	2035	8/27/2019	$ -	$ 2,507	$ 2,914
1990 Series - Revenue Bonds (JHH)	7.30% to 7.35%	2019	N/A	90,169	24,573	32,469
2004 – Commercial Paper Revenue Notes Series B (JHBMC)	0.74%	2025	9/9/2019	101,990	57,995	63,870
2010 Series - Revenue Bonds (JHH)	4.38% to 5.00%	2040	N/A	148,195	-	148,194
2011 Series A - Revenue Bonds (JHH)	2.00% to 5.00%	2026	N/A	74,615	64,510	66,995
2012 Series B - Revenue Bonds (JHH)	2.00% to 5.00%	2033	N/A	97,560	85,000	88,175
2012 Series C – Revenue Bonds (JHH)	1.31%	2038	11/15/2017	84,610	82,830	83,230
2012 Series D – Revenue Bonds (JHH)	1.31%	2038	11/15/2017	85,060	82,995	83,450
2012 Series E – Floating Rate Note (JHH)	0.99%	2029	12/1/2017	100,000	100,000	100,000
2013 Series A – Revenue Bonds (JHHSC)	1.08%	2046	5/15/2018	88,250	88,250	88,250
2013 Series B – Revenue Bonds (JHHSC)	1.06%	2029	5/15/2018	61,850	52,800	55,190
2013 Series C – Revenue Bonds (JHHSC)	3.00% to 5.00%	2043	N/A	238,000	232,965	235,076
2015 Series A - Revenue Bonds (JHHSC)	2.00% to 5.00%	2040	N/A	134,735	130,820	132,815
2015 Series B - Revenue Bonds (JHHSC)	1.03%	2048	5/15/2018	48,245	48,245	48,245
2016 Series A - Revenue Bonds (JHHSC)	0.95%	2023	5/31/2023	48,565	47,635	48,565
2016 Series B - Revenue Bonds (JHHSC)	0.98%	2042	5/31/2023	48,245	48,245	48,245
Tax Exempt City of St. Petersburg Health Facilities Authority Revenue						
2012 Series A – Revenue Refunding Bonds (JHACH)	1.19%	2037	6/1/2022	102,400	93,800	95,650
Taxable Revenue Bonds:						
2013 Series – Taxable Bonds (JHHSC)	1.42% to 2.77%	2023	N/A	148,165	148,165	148,165
2016 Series – Taxable Bonds (JHHSC)	3.84%	2046	N/A	500,000	500,000	-
2017 Series A - Taxable Revenue Bonds (JHHSC)	1.73%	2047	1/25/2027	165,200	164,973	-
Other debt:						
Johns Hopkins Endowment (JHHSC)	6.00%	2018	N/A	6,100	513	993
					2,056,821	1,570,491
Unamortized premiums and discounts, net					21,686	26,199
Unamortized debt issuance costs					(8,047)	(7,160)
Obligations under capital leases					60,597	48,843
					2,131,057	1,638,373
Current maturities of long-term debt and capital leases					(542,775)	(37,836)
Total long-term debt and obligations under capital leases, net of current portion					$ 1,588,282	$ 1,600,537

Financing expenses. Financing expenses incurred in connection with the issuance of debt are presented in the Consolidated Balance Sheet as a direct deduction from the carrying value of the associated debt. The expenses are being amortized over the terms of the related debt issues using the effective interest method. The total amount expensed for the period ended June 30, 2017 and 2016 was $901 thousand and $981 thousand, respectively.

Obligated Group

The Johns Hopkins Health System Obligated Group (“JHHS Obligated Group”) consists of JHH, JHBMC, HCGH, SHI, SHHS, SMH, JHACH and JHHSC. The most recent admission to the JHHS Obligated Group was JHACH in November 2014. All of the debt of JHH, JHBMC, HCGH, SHI, SHHS, SMH, JHACH 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, JHACH’s, and JHHSC’s receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, HCGH, SHI, SHHS, SMH, JHACH and JHHSC are required to achieve a defined minimum debt service coverage ratio each year. The outstanding JHHS Obligated Group parity debt was $2.1 billion and $1.6 billion as of June 30, 2017 and 2016, respectively.

2012A Series Tax-Exempt Revenue Bonds - JHACH

On June 1, 2017, JHACH closed on the conversion of $93.8 million of the JHACH 2012A tax exempt bonds to a new index rate period. The JHACH 2012A bonds had an initial index rate period with a mandatory purchase on June 1, 2017. The holder of the bonds elected to retain the

JHACH 2012A bonds for a new index rate period that runs through June 1, 2022. The bonds pay interest monthly based on a floating rate equal to 70% of one-month Libor plus 0.45%, and the underlying principal amortizes through 2034.

2017A Series Taxable Revenue Bonds - JHHSC
In January 2017, JHHSC closed the Series 2017A taxable bond issuance of $165.2 million to advance refund its JHH 2010 Series revenue bonds. The Series 2017A bonds mature in 2047 and pay principal and interest monthly. Interest payments are based on a floating rate equal to one-month LIBOR plus 84 basis points. The advance refunding created a charge of $15.5 million that is included in the non-operating section of the Consolidated Statements of Operations and Changes in Net Assets.

2016 Series Taxable Bonds - JHHSC
On November 3, 2016, JHHS successfully priced the Johns Hopkins Health System Series 2016 taxable bond issuance with a total par amount of $500 million, structured as a 30-year bullet, maturing in 2046, with a coupon rate of 3.837% (“2016 Bonds”). The transaction closed on November 10, 2016, at which time the net proceeds of $497.7 million were received by JHHS.

2012 Series E Bonds - JHH
On July 1, 2016, JHH made a $2.8 million principal payment related to the scheduled maturity of its 2012 Series E bonds. In connection with this principal payment, in April 2017, JHH issued an additional $2.8 million of bonds to replace the matured principal amount. On July 1, 2015, JHH made a $9.0 million principal payment related to the scheduled maturity of its 2012 Series E bonds. In connection with this principal payment, in February 2016, JHH issued an additional $9.0 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.

2016 Series B Revenue Bonds - JHHSC
In June 2016, JHHSC closed the Series 2016B MHHEFA revenue bond issuance of $48.2 million to refund its JHH 2011B series revenue bonds. The Series 2016B bonds mature in 2042 and pay interest monthly based on a floating rate equal to 67% of one-month LIBOR plus 50 basis points.

2016 Series A Revenue Bonds - JHHSC
In May 2016, JHHSC closed the Series 2016A MHHEFA revenue bond issuance of $48.6 million to refund its JHH 2012A series revenue bonds. The Series 2016A bonds mature in 2023 and pay interest monthly based on a floating rate equal to 67% of one-month LIBOR plus 48 basis points.

Letters of Credit & Intermediate Financing Vehicles
In connection with the 2004 MHHEFA Commercial Paper Revenue Notes, JHBMC has a $58.0 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 September 9, 2019 subject to extension or earlier termination. No amounts were outstanding as of June 30, 2017 or 2016.

JHHS utilizes public floating rate notes and bank direct purchase facilities as the core component of its variable-rate debt structure. These vehicles provide intermediate-term financing, typically 3 – 10 years, as a means to finance longer-lived assets. These variable-rate notes are structured with a mandatory purchase at the end of their term, at which time JHHS is required to purchase the bonds back from the investors. Due to the long-term nature of the underlying assets financed, JHHS has historically refunded all intermediate-term debt prior to the mandatory purchase dates with new variable-rate vehicles. The table above notes the renewal dates for the outstanding variable-rate notes.

As of June 30, 2017, $455.1 million of public floating rate notes and bank direct purchase facilities have been recorded as current liabilities as a result of mandatory purchase dates of these financing vehicles coming due within the next 12 months. This debt will be recorded within current liabilities until such time that these notes are refunded.

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, 2017 (in thousands):

2018	$ 538,541
2019	49,185
2020	55,890
2021	44,830
2022	48,440
Thereafter	1,319,935
	$ 2,056,821

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):

	2017	**2016**
Net interest costs:		
Capitalized	$ 4,513	$ 10,369
Expensed	74,166	60,123
Allocated to others	55	55
	$ 78,734	$ 70,547
Interest costs paid	$ 73,513	$ 69,304

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.

JHHSC has a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and building, located in Baltimore, Maryland, which is known as the Science and Technology Park at Johns Hopkins. The lease commenced in June 2016 and will continue through June 2031. The base rent escalates 2.5% per year, in accordance with the lease agreement. JHHSC has recorded this as a capital lease.

JHBMC has a lease agreement with an unrelated party for the lease of real property. The leased property consists of a building, located in Baltimore, Maryland, which is known as 5500 Lombard Street. The lease term began on May 1, 2017 and will continue through April 30, 2032. The base rent escalates 2.5% per year, in accordance with the lease agreement. JHBMC has recorded this as a capital lease.

The total leased property of $70.6 million and $60.4 million is reflected in property, plant and equipment as of June 30, 2017 and 2016, respectively. Accumulated depreciation on the leased assets was $25.7 million and $22.4 million as of June 30, 2017 and 2016, respectively. Depreciation expense on these leased assets is included within depreciation expense in the Consolidated 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, 2017 (in thousands):

	Capital Lease Payments
2018	$ 6,978
2019	7,124
2020	7,170
2021	7,332
2022	7,433
2023 and thereafter	50,063
Minimum lease payments	86,100
Interest on capital lease obligations	(25,503)
Net minimum payments	60,597
Current portion of capital lease obligation	(4,234)
Capital lease obligation, less current	$ 56,363

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 $1.036 billion and $749.6 million as of June 30, 2017 and 2016, 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 Consolidated 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, 2017 and 2016, the amount of required collateral was $46.1 million and $162.7 million, respectively.

Swap Novation

In February 2017, JHHSC closed two swap novation contracts with PNC Bank, N.A. (PNC) and Goldman Sachs. The two existing $150 million swaps with Goldman Sachs were split into four $150 million swaps—two swaps with ten year terms and two forward-starting swaps with longer terms. PNC became the counterparty on the two ten-year term swaps each with effective dates from February 2017 through December 2026. Goldman Sachs remains the counterparty on the two forward-starting swaps, with effective dates from December 2026 through May 2039 and May 2040, respectively. JHHSC and PNC executed the agreements on the two current swaps without a credit support annex. As a result, $63.1 million of swap collateral, equivalent to the mark-to-market value of the two swaps with PNC, was returned to JHHSC upon execution of the swap novation contracts. The two swaps with PNC carry fixed rates of 4.122% and 4.133%, respectively, for the receipt of a floating interest rate of 67% of one-month LIBOR. The two swaps with Goldman Sachs carry fixed rates of 3.911% and 3.922%, respectively, for the receipt of a floating interest rate of 67% of one-month LIBOR.

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

Swap Type	Expiration Date	Counterparty	JHHS Pays	JHHS Receives	Notional Amount at June 30 2017	2016
Fixed	2022	J.P. Morgan	3.3290%	67% of 1-Month LIBOR	$ 47,635	$ 48,565
Fixed	2025	Bank of America	3.3265%	67% of 1-Month LIBOR	57,995	63,870
Fixed	2021	J.P. Morgan	3.9190%	68% of 1-Month LIBOR	19,830	25,000
Fixed	2034	Royal Bank of Canada	3.6235%	62.2% of 1-Month LIBOR + 0.27%	14,345	14,410
Fixed	2034	Citibank, N.A.	3.6235%	62.2% of 1-Month LIBOR + 0.27%	23,930	24,040
Fixed	2026	PNC	4.1220%	67% of 1-Month LIBOR	150,000	-
Fixed	2026	PNC	4.1330%	67% of 1-Month LIBOR	150,000	-
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	82,025	82,475
Fixed	2038	Merrill Lynch Capital Services	3.8091%	67% of 1-Month LIBOR	82,425	82,875
Fixed	2025	Goldman Sachs Capital Markets, L.P.	3.6910%	67% of 1-Month LIBOR	7,715	8,325
Fixed	2047	Citibank, N.A.	3.8505%	61.8% of 1-Month LIBOR + 0.25%	60,000	60,000
					$ 1,035,900	$ 749,560

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

	Derivatives Reported as Liabilities 2017 Balance Sheet Caption	Fair Value	2016 Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	$ 220,089	Other long-term liabilities	$ 300,883

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	
	2017	2016
Interest rate swaps:		
Non-operating expense	$ 80,794	$ (87,596)

10. Temporarily and Permanently Restricted Net Assets

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

	2017	2016
Purchase of property, plant, and equipment	$ 41,948	$ 26,412
Health care services	57,511	67,207
Health education and counseling	6,142	5,727
Indigent care	2,282	1,844
Restricted Pledge Fund	15,365	19,460
	$ 123,248	$ 120,650

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

	2017	2016
Health care services	$ 47,055	$ 45,268
Health education and counseling	13,208	12,655
	$ 60,263	$ 57,923

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' Consolidated 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, 2017 and 2016 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	2017	2016
Benefit obligation as of beginning of year	$ 2,186,513	$ 1,829,634
Service cost	77,666	66,677
Interest cost	87,225	85,657
Actuarial (gain) loss	(3,474)	257,460
Benefits paid	(58,889)	(52,915)
Benefit obligation as of June 30	$ 2,289,041	$ 2,186,513

Change in plan assets	2017	2016
Fair value of plan assets as of beginning of year	$ 1,397,403	$ 1,293,092
Actual return on plan assets	97,392	38,065
Employer contribution	100,357	119,161
Benefits paid	(58,889)	(52,915)
Fair value of plan assets as of June 30	$ 1,536,263	$ 1,397,403

Funded Status as of June 30	2017	2016
Fair value of plan assets	$ 1,536,263	$ 1,397,403
Projected benefit obligation	(2,289,041)	(2,186,513)
Unfunded status	$ (752,778)	$ (789,110)

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

	2017	2016
Net pension asset (SMH - included in other assets)	$ 8,661	$ -
Net pension liability	(761,439)	(789,110)
Net amount recognized	$ (752,778)	$ (789,110)

Aside from the SMH plan, 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):

Amounts not yet recognized	2017	2016
Actuarial net loss	$ 828,106	$ 900,663
Prior service cost	234	310
	$ 828,340	$ 900,973
Accumulated benefit obligation	$ 2,107,606	$ 1,998,886

Net Periodic Pension Cost

Net periodic pension cost	2017	2016
Service cost	$ 77,666	$ 66,677
Interest cost	87,225	85,657
Expected return on plan assets	(103,905)	(97,957)
Amortization of prior service cost	76	(31)
Recognized net actuarial loss	73,987	52,361
Settlement loss recognized	1,849	1,772
Net periodic pension cost	$ 136,898	$ 108,479

Components of net periodic pension cost (in thousands):

Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets	2017	2016
Net loss	$ 3,039	$ 317,352
Amortization of net loss	(75,836)	(54,133)
Amortization of prior service cost	(76)	31
Total recognized in unrestricted net assets	$ (72,873)	$ 263,250
Total loss recognized in net periodic benefit cost and unrestricted net assets	$ 64,025	$ 371,729

The estimated net loss and prior service cost that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are $83.4 million and $127.0 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:

	2017	2016
Discount rate - service cost	4.26%	4.76%
Discount rate - benefit obligation	4.05%	4.76%
Expected return on plan assets	7.60%	8.00%
Rate of compensation increase - ultimate	2.50%	2.50%

The SMH plan utilized a rate of return on assets of 6.00% and 7.00% for the years ended June 30, 2017 and 2016, 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:

Assumptions for PBO	2017	2016
Discount rate	4.11%	4.05%
Expected return on plan assets	7.60%	7.60%
Rate of compensation increase - ultimate	2.50%	2.50%

The SMH plan utilized an expected rate of return on assets of 6.00% for the years ended June 30, 2017 and 2016 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	2017	2016
Cash and cash equivalents	2.69%	0.74%
Equities and equity funds	10.13%	10.11%
Fixed income funds	35.21%	36.72%
Investments measured at NAV as a practical expedient	51.97%	52.43%
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, 2017 grouped by hierarchy level (in thousands):

Assets	Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 41,332	$ 41,332	$ -
Equities and equity funds (2)	155,692	155,692	-
Fixed income funds (3)	540,990	457,990	83,000
	738,014	655,014	83,000
Investments measured at NAV as a practical expedient	798,249		
Total plan assets	$ 1,536,263		

The following table presents the plan assets carried at fair value as of June 30, 2016 grouped by hierarchy level (in thousands):

Assets	Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 10,337	$ 10,337	$ -
Equities and equity funds (2)	141,208	141,208	-
Fixed income funds (3)	513,067	443,549	69,518
	664,612	595,094	69,518
Investments measured at NAV as a practical expedient	732,791		
Total plan assets	$ 1,397,403		

(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. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1.

(3) Fixed income funds are investments in mutual funds and fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. For the fixed income instruments, fair value is based on quotes for similar securities; therefore these investments are rendered level 2.

There are no unfunded commitments related to the Plans’ investments measured at NAV as a practical expedient.

The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2017 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	$ 226,824	Monthly	5 to 30 days
Equity long/short hedge funds (2)	93,565	Monthly or quarterly	15 to 60 days
Event driven hedge funds (3)	75,065	Quarterly	60 to 65 days
Relative value hedge funds (4)	30,626	Quarterly	95 days
Commingled Equity Funds (6)	151,802	Daily or monthly	3 to 15 days
Commingled Fixed Income (7)	220,367	Daily or monthly	10 to 15 days
Total	$ 798,249		

The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2016 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	$ 210,487	Monthly	5 to 30 days
Equity long/short hedge funds (2)	57,914	Monthly or quarterly	15 to 30 days
Event driven hedge funds (3)	78,817	Quarterly or annually	60 to 90 days
Relative value hedge funds (4)	27,343	Quarterly	95 days
Opportunistic Credit hedge Funds (5)	14,013	Annually	60 to 90 days
Commingled Equity Funds (6)	123,822	Daily or monthly	3 to 15 days
Commingled Fixed Income (7)	220,395	Daily or monthly	10 to 15 days
Total	$ 732,791		

(1) Absolute return hedge funds: Investment managers who seek low correlation to global equity markets. Strategies have the ability to identify opportunities across multiple sectors, asset classes, and geographic regions.

(2) Equity long/short hedge funds: Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. Strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure and leverage employed.

(3) Event-Driven hedge funds: Investment Managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.

(4) Relative Value hedge funds: Investment Managers with an investment thesis predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types can range broadly across equity, fixed income, derivative or other security types.

(5) Opportunistic credit strategies employ an investment process focused primarily on corporate credit instruments of companies trading at significant discounts to their value at issuance or (par value) at maturity as a result of either a formal bankruptcy proceeding or financial market perception of near term proceedings.

(6) Commingled equity funds: Long-only equity strategies that invest exclusively in publicly traded companies, though the funds are not traded on a public exchange.

(7) Commingled fixed income: Fixed income strategies that invest in publicly-issued debt instruments, though the funds are not traded on a public exchange.

Contributions and Estimated Future Benefit Payments

JHHS expects to contribute $145.5 million to its pension plans in the fiscal year ending June 30, 2018.

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, 2017 (in thousands):

2018	$	74,633
2019		79,734
2020		86,404
2021		93,309
2022		100,162
Next five years		597,931

12. Professional and General Liability Insurance

The University and JHHS 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 Consolidated 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 1.10% and 0.94% as of June 30, 2017 and 2016, respectively.

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, 2017 and 2016 as follows:

Caption on Consolidated Balance Sheet	2017	2016
Estimated malpractice recoveries, current portion	$ 44,653	$ 47,031
Estimated malpractice recoveries, net of current	37,392	35,300
Total assets	$ 82,045	$ 82,331
Current portion of estimated malpractice costs	$ 44,653	$ 47,031
Estimated malpractice costs, net of current portion	37,392	35,300
Total liabilities	$ 82,045	$ 82,331

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 was $53.5 million and $47.5 million for the years ended June 30, 2017 and 2016, respectively. Reserves were $177.3 million and $175.8 million as of June 30, 2017 and 2016, respectively.

13. Related Party Transactions

During the years ended June 30, 2017 and 2016, JHHS and its Affiliates engaged in various related party transactions. These transactions were not eliminated because these entities are not consolidated. The following is a summary of the significant related party transactions and balances for the year ended June 30:

<u>Revenue/(expense) transactions (in thousands):</u>

	2017	2016
Pharmacy management and patient discharge planning costs to JHHCG	$ (32,617)	$ (28,244)
Security and management of housekeeping and parking garage services provided by Broadway Services, Inc	(21,856)	(20,192)
Utility, telecommunication and clinical application services provided by JHMI Utilities, LLC	(103,280)	(87,613)

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

	2017	2016
Note receivable - JHMI Utilities, LLC	$ 11,294	$ 11,294
Note receivable - JHI	3,145	2,981
Due from other affiliates, net	3,573	2,838
Due from affiliates, current portion, net	$ 18,012	$ 17,113
Note receivable - JHMI Utilities, LLC	$ 80,684	$ 88,398
Note receivable - JHI	10,516	13,662
Due from other affiliates	5,190	7,322
Due from affiliates, net of current portion	$ 96,390	$ 109,382

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 Consolidated 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, 2017 and 2016. JHHSC's note receivable has a balance of $87.0 million and $94.7 million as of June 30, 2017 and 2016, 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.

JHH has an affiliate note receivable with JHI. JHH's note receivable has a balance of $13.7 million and $16.6 million as of June 30, 2017 and 2016, respectively. The note is due in June 2021, accrues interest in the initial period at a fixed rate of 5.4%, with principal payments paid quarterly 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 case, on April 1, 2015, a complaint was filed against the University, its Bloomberg School of Public Health and its School of Medicine, JHHSC and JHH (collectively the "Johns Hopkins Defendants"), as well as another institution and a pharmaceutical company. 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 plaintiffs' third amended complaint alleges that physicians and scientists employed by defendants "approved, encouraged, and directed nonconsensual and nontherapeutic human experiments in Guatemala" in which research subjects were intentionally exposed to and infected with venereal diseases without informed consent, and that the individuals were not told about the consequences of the experiments or given follow-up care, treatment, or education. The third amended complaint alleges claims under both the Guatemala civil code and the federal Alien Tort Statute (the "ATS"), and seeks compensatory damages in excess of $75,000 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. A prior lawsuit against officials of the United States government for the same injuries alleged in the suit against the Johns Hopkins Defendants was dismissed by the U.S. District Court for the District of Columbia.

On August 30, 2016, the Court issued a memorandum decision dismissing all of plaintiffs' Guatemala law claims, but denying defendants' motion to dismiss the third amended complaint with respect to the ATS claims. The Johns Hopkins Defendants intend to vigorously defend this lawsuit.

JHHS
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 $319.9 million and $296.1 million for the years ended June 30, 2017 and 2016, respectively.

JHHS had non-cancellable commitments under construction contracts of $32.5 million and $67.0 million as of June 30, 2017 and 2016, respectively, which includes the renovation of several buildings on the East Baltimore campus.

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, 2017, that have initial or remaining lease terms in excess of one year (in thousands).

2018	$	22,474
2019		20,839
2020		16,374
2021		13,785
2022		11,958

Rental expense for all operating leases for the years ended June 30, 2017 and 2016 amounted to $41.3 million and $44.6 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, 2017 and 2016 was $19.4 million and $19.5 million, respectively.

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

	2017	2016
Retirement obligation at beginning of year	$ 19,467	$ 19,418
Liabilities settled	(605)	(522)
Accretion expense	564	571
Retirement obligation at end of year	$ 19,426	$ 19,467

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, 2017, the amount of the debt guarantee by JHH was $108.2 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, 2017 and 2016, 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 Consolidated 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 $398.1 million and $395.8 million for the years ended June 30, 2017 and 2016, 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 was exercised and the fourth Option Period will begin on October 1, 2017.

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):

	2017	2016
Health care services	$ 4,799,216	$ 4,500,659
General and administrative services	1,182,344	1,082,520
Fundraising	6,797	6,232
Program service	11,497	12,081
Total expenses	$ 5,999,854	$ 5,601,492

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 consolidated 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 $676.2 million and $626.8 million as of June 30, 2017 and 2016, respectively. The Endowment Corporation's distributions from net assets to JHHS and its affiliates were $11.6 million and $16.1 million for the years ended June 30, 2017 and 2016, respectively, and were recorded as other revenue.

17. Subsequent Events

JHHS has performed an evaluation of subsequent events through September 27, 2017, 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, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA #	PASS THROUGH ENTITY SPONSOR #	EXPENDITURES BY AFFILIATE JHH	JHBMC	SHI	SMH	JHACH	ACHS	JHCP	JHHC	HCGH	TOTAL FEDERAL EXPENDITURES	PASSED TO SUB-RECIPIENTS
UNITED STATES DEPARTMENT OF AGRICULTURE:													
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION													
CHILD AND ADULT CARE FOOD PROGRAM	10.558	280800		$ 58,730								$ 58,730	
TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE			-	58,730	-	-	-	-	-	-	-	58,730	-
UNITED STATES DEPARTMENT OF DEFENSE:													
PASSED THROUGH THE NATIONAL MARROW DONOR PROGRAM													
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 AND PREVENTION													
CRIME VICTIM ASSISTANCE	16.575	VOCA-2017-0012									$ 39,672	39,672	
CRIME VICTIM ASSISTANCE	16.575	VOCA-2017-1566									62,801	62,801	
TOTAL UNITED STATES DEPARTMENT OF JUSTICE			-	-	-	-	-	-	-	-	102,473	102,473	-
UNITED STATES DEPARTMENT OF TRANSPORTATION:													
PASSED THROUGH THE FLORIDA DEPARTMENT OF TRANSPORTATION													
PASSED THROUGH THE UNIVERSITY OF FLORIDA													
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010820					5,056					5,056	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010824					4,878					4,878	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010822					5,334					5,334	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010818					5,198					5,198	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010819					5,795					5,795	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010821					5,120					5,120	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010823					5,466					5,466	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00010825					5,416					5,416	
HIGHWAY PLANNING AND CONSTRUCTION	20.205	UFDSP00011345					687,120					687,120	
PASSED THROUGH THE MARYLAND TRANSIT ADMINISTRATION													
ENHANCED MOBILITY OF SENIORS AND INDIVIDUALS WITH DISABILILTIES	20.513	MD-17-0038		39,857								39,857	
TOTAL UNITED STATES DEPARTMENT OF TRANSPORTATION			-	39,857	-	-	729,383	-	-	-	-	769,240	-
UNITED STATES DEPARTMENT OF EDUCATION:													
PASSED THROUGH THE FLORIDA DEPARTMENT OF HEALTH													
SPECIAL EDUCATION GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES	84.181	COQTT					1,363,422					1,363,422	
TOTAL UNITED STATES DEPARTMENT OF EDUCATION			-	-	-	-	1,363,422	-	-	-	-	1,363,422	-
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES:													
PASSED THROUGH THE MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE													
PUBLIC HEALTH AND SOCIAL SERVICES EMERGENCY FUND	93.003	VARIOUS	$ 404,541	29,848	$ 29,792							464,181	
PASSED THROUGH THE CENTERS FOR DISEASE CONTROL AND PREVENTION													
PASSED THROUGH THE AMERICAN THROMBOSIS AND HEMOSTATSIS NETWORK													
PASSED THROUGH HEMOPHILIA OF GEORGIA INC													
DISABILITIES PREVENTION	93.080	1 NU 27 DD001155-01-00					15,543					15,543	
DISABILITIES PREVENTION	93.080	1 NU 27 DD001155-02-00					14,942					14,942	
PASSED THROUGH THE MATERNAL AND CHILD HEALTH BUREAU													
PASSED THROUGH HEMOPHILIA OF GEORGIA INC													
MATERNAL AND CHILD HEALTH FEDERAL CONSOLIDATED PROGRAMS	93.110	5 H30 MC 24046-04-00					14,400					14,400	
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
STRONG START FOR MOTHERS AND NEWBORNS	93.611	Not Available								$ 104,072		104,072	
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
IMR AND NCCIM PROGRAMS	93.700	D33HP29246-02-000							$ 58,678			58,678	
PASSED THROUGH THE HEALTHY START COALITION OF PINELLAS INC													
PASSED THROUGH WEST COAST NEONATOLOGY													
MEDICAID ASSISTANCE PROGRAM	93.778	Not Available						$ 39,311				39,311	

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
Year Ended June 30, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA #	PASS THROUGH ENTITY SPONSOR #	EXPENDITURES BY AFFILIATE JHH	JHBMC	SHI	SMH	JHACH	ACHS	JHCP	JHHC	HCGH	TOTAL FEDERAL EXPENDITURES	PASSED TO SUB-RECIPIENTS
PASSED THROUGH THE MARYLAND DEPARTMENT OF HEALTH AND MENTAL HYGIENE													
EBOLA PREPAREDNESS AND RESPONSE ACTIVITIES	93.817	VARIOUS	$ 705,604									$ 705,604	
DIRECT HRSA AWARD TO JHACH													
HEALTHY START INITIATIVE	93.926	H49MC27805-03					$ 913,577					913,577	$ 164,348
HEALTHY START INITIATIVE	93.926	H49MC27805-04					210,489					210,489	
PASSED THROUGH ANNE ARUNDEL COUNTY OF MARYLAND													
BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES	93.958	MH 575 OTH		$ 159,744								159,744	
PASSED THROUGH THE CITY OF BALTIMORE (BEHAVIORAL HEALTH SYSTEM BALTIMORE)													
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	17-115-5414		713,028								713,028	
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	17-115-5413		307,801								307,801	
BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE	93.959	ABG-5415-12	413,882									413,882	
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
GERIATRIC EDUCATION CENTERS	93.969	U1QHP2810-02-01							75,000			75,000	
PASSED THROUGH THE CITY OF BALTIMORE HEALTH DEPARTMENT													
PREVENTATIVE HEALTH SERVICES - SEXUALLY TRANSMITTED DISEASES	93.977	37389		50,000								50,000	
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
GRANTS FOR PRIMARY CARE TRAINING AND ENHANCEMENT	93.884	Not Available							34,375			34,375	
PASSED THROUGH THE HEALTHY START COALITION OF PINELLAS INC													
PASSED THROUGH WEST COAST NEONATOLOGY													
MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANTS TO THE STATES	93.994	Not Available						3,163				3,163	
PASSED THROUGH THE FLORIDA DEPARTMENT OF HEALTH													
MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANTS TO THE STATES	93.994	COQVY					133,621					133,621	27,592
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
UNKNOWN CFDA PROGRAM	93.UNK	Not Available							5,930			5,930	
RESEACH AND DEVELOPMENT CLUSTER													
PASSED THROUGH THE AGENCY FOR HEALTHCARE RESEARCH AND QUALITY													
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
RESEARCH ON HEALTHCARE COSTS, QUALITY, AND OUTCOMES	93.226	Not Available						6,700				6,700	
PASSED THROUGH THE NATIONAL CENTER FOR ADVANCING TRANSLATIONAL SCIENCES													
PASSED THROUGH DUKE UNIVERSITY													
NATIONAL CENTER FOR ADVANCING TRANSLATIONAL SCIENCES	93.350	203-8372						10,079				10,079	
PASSED THROUGH NATIONAL INSTITUTES OF HEALTH													
PASSED THROUGH NATIONAL CANCER INSTITUTE													
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
CANCER DETECTION AND DIAGNOSTIC RESEARCH	93.394	2002655831						64,833				64,833	
CANCER TREATMENT RESEARCH	93.395	1U10CA80802-02				$ 84,653						84,653	
PASSED THROUGH CHILDREN'S HOSPITAL OF PHILADELPHIA ON BEHALF OF CHILDREN'S ONCOLOGY GROUP													
CANCER TREATMENT RESEARCH	93.395	FP00017458_SUB105_01						8,233				8,233	
CANCER TREATMENT RESEARCH	93.395	FP00015221_SUB34_01						61,850				61,850	
PASSED THROUGH THE UNIVERSITY OF SOUTH FLORIDA													
CANCER TREATMENT RESEARCH	93.395	6119-1222-00-G						4,000				4,000	
CANCER TREATMENT RESEARCH	93.395	1257-1005-00-B						1,027				1,027	
NATIONAL HEART, LUNG, AND BLOOD INSTITUTE - DIRECT AWARD - MRI	93.R&D	HHSN268201300016C			943,547							943,547	
NATIONAL HEART, LUNG, AND BLOOD INSTITUTE - DIRECT AWARD - CARDIAC SURGERY	93.R&D	HHSN268201300001C			2,533,943				675,352			3,209,295	675,352

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
Year Ended June 30, 2017

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA #	PASS THROUGH ENTITY SPONSOR #	EXPENDITURES BY AFFILIATE									TOTAL FEDERAL EXPENDITURES	PASSED TO SUB-RECIPIENTS
			JHH	JHBMC	SHI	SMH	JHACH	ACHS	JHCP	JHHC	HCGH		
PASSED THROUGH NATIONAL HEART, LUNGS, AND BLOOD INSTITUTE													
PASSED THROUGH THE REGENTS OF THE UNIVERSITY OF MICHIGAN													
PASSED THROUGH SOCIETY OF THORACIC SURGEONS													
CARDIOVASCULAR DISEASES RESEARCH	93.837	3003050729						$ 36,132				$ 36,132	
PASSED THROUGH NEW ENGLAND RESEARCH INSTITUTE													
CARDIOVASCULAR DISEASES RESEARCH	93.837	VARIOUS						18,135				18,135	
PASSED THROUGH SEATTLE CHILDREN'S HOSPITAL													
LUNG DISEASES RESEARCH	93.838	11047SUB						22,682				22,682	
PASSED THROUGH DARTMOUTH UNIVERSITY													
PASSED THROUGH SOCIETY OF THORACIC SURGEONS													
CARDIOVASCULAR DISEASES RESEARCH	93.839	Not Available						97,397				97,397	
PASSED THROUGH DARTMOUTH UNIVERSITY													
PASSED THROUGH SOCIETY OF THORACIC SURGEONS													
PEDIATRIC HEART SURGERY RESEARCH	93.937	Not Available						18,050				18,050	
NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS AND STROKE DIRECT AWARD	93.R&D	HHSN271201400070C			$ 852,551				$ 143,070			995,621	$ 143,070
PASSED THROUGH NATIONAL INSTITUTE OF NEUROLOGICAL DISORDERS AND STROKE													
PASSED THROUGH THE UNIVERSITY OF WASHINGTON													
EXTRAMURAL RESEARCH PROGRAMS IN THE NEUROSCIENCES AND NEURO DISORDERS	93.853	UWSC7766						4,493				4,493	
PASSED THROUGH NATIONAL INSTITUTE OF ALLERGIES AND INFECTIOUS DISEASES													
PASSED THROUGH DUKE UNIVERSITY													
ALLERGY, IMMUNOLOGY, AND TRANSPLANTATION RESEARCH	93.855	Not Available						2,000				2,000	
PASSED THROUGH THE EUNICE KENNEDY SHRIVER NATIONAL INSTITUTE OF CHILD HEALTH AND HUMAN DEVELOPMENT													
PASSED THROUGH DUKE UNIVERSITY													
CHILD HEALTH AND HUMAN DEVELOPMENT EXTRAMURAL RESEARCH	93.865	Not Available						2,400				2,400	
PASSED THROUGH JOHNS HOPKINS UNIVERSITY													
CHILD HEALTH AND HUMAN DEVELOPMENT EXTRAMURAL RESEARCH	93.865	Not Available						12,281				12,281	
PASSED THROUGH NATIONAL INSTITUTE OF DIABETES AND DIGESTIVE AND KIDNEY DISORDERS													
PASSED THROUGH NATIONAL INSTITUTE OF ALLERGIES AND INFECTIOUS DISEASES													
PASSED THROUGH NATIONAL INSTITUTE OF CHILD HEALTH AND HUMAN DEVELOPMENT													
PASSED THROUGH THE UNIVERSITY OF SOUTH FLORIDA	93.UNK	USF Account #: 6119114400						2,755				2,755	
TOTAL RESEARCH & DEVELOPMENT CLUSTER			-	-	4,330,041	84,653	-	373,047	818,422	-	-	5,606,163	818,422
TOTAL UNITED STATES DEPARTMENT OF HEALTH & HUMAN SERVICES			$ 1,524,027	1,260,421	4,359,833	84,653	1,302,572	415,521	992,405	104,072	-	10,043,504	1,010,362
FEDERAL EMERGENCY MANAGEMENT AGENCY:													
DISASTER GRANTS - PUBLIC ASSISTANCE - DIRECT AWARDS	97.036	VARIOUS	172,856	72,152	94,794	33,797					26,507	400,106	
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			172,856	72,152	94,794	33,797	-	-	-	-	26,507	400,106	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 1,696,883**	**$ 1,431,160**	**$ 4,454,627**	**$ 118,450**	**$ 3,403,377**	**$ 415,521**	**$ 992,405**	**$ 104,072**	**$ 128,980**	**$ 12,745,475**	**$ 1,010,362**

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 Florida State Financial Assistance
Year Ended June 30, 2017

STATE GRANTOR/ PASS-THROUGH GRANTOR/PROGRAM TITLE	STATE CSFA NUMBER	PASS-THROUGH ENTITY OR AWARD IDENTIFICATION NUMBER	EXPENDITURES BY AFFILIATE JHACH	ACHS	TOTAL STATE EXPENDITURES	PASSED TO SUB-RECIPIENTS
STATE OF FLORIDA:						
PASSED THROUGH THE STATE OF FLORIDA DEPARTMENT OF ECONOMIC OPPORTUNITY						
FLORIDA PEDIATRIC RESEARCH ZONE GRANT	40.120	SL014		$ 1,000,000	$ 1,000,000	$ 460,534
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF EDUCATION						
SPECIALTY CHILDREN'S HOSPITAL ACADEMICS	48.065	52R-90670-7Q001	$ 98,499		98,499	
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF HEALTH						
NEONATAL ABSTINENCE SYNDROME PILOT PROGRAM	63.043	COQYE	101,984		101,984	
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF HEALTH						
STATE HEMATOLOGY/ONCOLOGY - SICKLE CELL	64.022	COQVY	81,934		81,934	
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF HEALTH						
TRAUMA CENTER FINANCIAL SUPPORT	64.075	TRA-01	115,823		115,823	
MAINTENANCE OF EFFORT:						
PASSED THROUGH THE STATE OF FLORIDA DEPARTMENT OF HEALTH						
SPECIAL EDUCATION - GRANTS FOR INFANTS & FAMILIES WITH DISABILITIES		COQTT	2,741,578		2,741,578	
PASSED THROUGH THE HEALTHY START COALITION OF PINELLAS, INC						
PASSED THROUGH WEST COAST NEONATOLOGY						
MATERNAL & CHILD HEALTH SERVICES BLOCK GRANT		Not Available		40,574	40,574	
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			**$ 3,139,818**	**$ 1,040,574**	**$ 4,180,392**	**$ 460,534**

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, 2017. 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. JHHS has not elected to use the 10% de minimis rate for indirect costs. Indirect costs are billed based upon negotiated and budgeted rates.

3. 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.

4. FEMA Emergency Funds

During FY17, affiliates requested and received $400,106 in FEMA emergency funds (CFDA 97.036) for expenses incurred during a winter weather emergency occurring January 22-23, 2016.

Part II

Reports on Compliance and Internal Control

Report of Independent Auditors 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 consolidated financial statements of The Johns Hopkins Health System Corporation and Affiliates ("JHHS"), which comprise the consolidated balance sheet as of June 30, 2017, and the related consolidated statement of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 27, 2017.

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
November 8, 2017

Report of Independent Auditors 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 the OMB Uniform Guidance, 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 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, respectively, for the year ended June 30, 2017. 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 federal and state statutes, regulations and the terms and conditions of its federal and state awards 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards* (Uniform Guidance); Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General. Those standards and the Uniform Guidance 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 and state program. However, our audit does not provide a legal determination of JHHS' compliance.

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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 and state programs for the year ended June 30, 2017.

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 the Uniform Guidance, 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 the Uniform Guidance, 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 8, 2017

Part III
Findings

The Johns Hopkins Health System Corporation and Affiliates
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

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 2 CFR 200.516(a)	None reported

Identification of major Federal programs:

Federal CFDA Number	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
84.181	Special Education Grants for Infants and Families with Disabilities

Dollar threshold used to distinguish between Federal governmental assistance Type A and Type B programs:	$750,000
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
None	Early Steps Program – Maintenance of Effort
40.120	Florida Pediatric Research Zone Grant

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 A – Federal Findings and Questioned Costs

There were no findings required to be reported under the Uniform Guidance.

Section III B – 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.

Prior Year State Award Findings and Questioned Costs

There were no findings or questioned costs from prior years.