The Johns Hopkins Health System Corporation and Affiliates

Report on Florida State Awards in Accordance with Section 215.97, Florida Statutes; and Chapter 10.650, Rules of the Auditor General
June 30, 2021
Federal Entity Identification Number 52-1465301

The Johns Hopkins Health System Corporation and Affiliates
Index
June 30, 2021

Page(s)

Part I - Financial Statements and Schedule of Expenditures of Florida State Financial Assistance

Part II - Reports on Compliance and Internal Control

Part III - Findings

Part I

Financial Statements and Schedules of Expenditures of Florida State Financial Assistance Year Ended June 30, 2021

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of The Johns Hopkins Health System Corporation and its affiliates ("JHHS"), which comprise the consolidated balance sheets as of June 30, 2021 and 2020, 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Johns Hopkins Health System Corporation and its affiliates as of June 30, 2021 and 2020, 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.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of state financial assistance for the year ended June 30, 2021 is presented for purposes of additional analysis as required by Section 215.97, Florida Statutes, and Chapter 10.650 Rules of the Auditor General of Florida, and is not a required part of the consolidated financial statements. The 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 schedule of expenditures of Florida state financial assistance is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2021 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, 2021. The purpose of that report is solely 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 the effectiveness of 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 24, 2021

The Johns Hopkins Health System Corporation and Affiliates

Consolidated Financial Statements
June 30, 2021 and 2020

The Johns Hopkins Health System Corporation and Affiliates
Index
June 30, 2021 and 2020

Report of Independent Auditors

To the Board of Trustees of
The Johns Hopkins Health System Corporation

We have audited the accompanying consolidated financial statements of The Johns Hopkins Health System Corporation and its affiliates, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended.

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.

Auditors' 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. 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 the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Johns Hopkins Health System Corporation and its affiliates as of June 30, 2021 and 2020, 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.

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 24, 2021

The Johns Hopkins Health System Corporation and Affiliates
Consolidated Balance Sheets
June 30, 2021 and 2020

(in thousands)	2021	2020
Assets		
Current assets		
Cash and cash equivalents	$ 983,833	$ 892,791
Short-term investments	208,528	95,505
Assets whose use is limited - used for current liabilities	4,476	4,273
Patient accounts receivable, net	679,820	575,383
Due from others	143,575	140,350
Due from affiliates	31,294	29,155
Inventories of supplies	166,012	147,450
Estimated malpractice recoveries	69,902	73,109
Prepaid expenses and other current assets	37,460	44,922
Total current assets	2,324,900	2,002,938
Assets whose use is limited		
By donors or grantors for		
Pledges receivable	38,466	47,985
Other	158,619	159,296
By Board of Trustees	711,615	628,030
Other	27,464	21,721
Total assets whose use is limited	936,164	857,032
Investments	3,582,736	2,900,783
Property, plant and equipment, net	2,786,963	2,958,596
Finance lease right-of-use assets	94,526	106,809
Operating lease right-of-use assets	112,899	128,199
Due from affiliates, net of current portion	58,519	67,788
Estimated malpractice recoveries, net of current portion	61,740	53,377
Swap counterparty deposit	72,907	109,459
Other assets	61,863	38,425
Total assets	$ 10,093,217	$ 9,223,406

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, 2021 and 2020

(in thousands)	2021	2020
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 80,152	$ 46,411
Lines of credit	-	200,000
Finance lease liabilities	13,003	12,382
Operating lease liabilities	25,253	26,610
Accounts payable and accrued liabilities	861,643	851,664
Medical claims reserve	119,713	121,063
Deferred revenue	158,154	157,090
Due to affiliates	15,066	5,849
Advances from third-party payors	116,291	132,956
Current portion of estimated malpractice costs	115,967	105,494
Total current liabilities	1,505,242	1,659,519
Long-term debt, net of current portion	1,804,340	1,878,397
Finance lease liabilities, net of current portion	102,021	114,578
Operating lease liabilities, net of current portion	97,613	109,270
Estimated malpractice costs, net of current portion	200,682	175,375
Net pension liability	756,879	1,103,995
Other long-term liabilities	382,720	372,835
Total liabilities	4,849,497	5,413,969
Net assets		
Net assets without donor restrictions	5,054,293	3,616,623
Net assets with donor restrictions	189,427	192,814
Total net assets	5,243,720	3,809,437
Total liabilities and net assets	$ 10,093,217	$ 9,223,406

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, 2021 and 2020

(in thousands)	2021	2020
Operating revenues and other support		
Net patient service revenue	$ 4,210,917	$ 3,780,913
Insurance premium revenue	2,411,805	2,253,432
Other revenue	1,171,200	1,063,818
Net assets released from restrictions used for operations	13,863	12,320
Total operating revenues and other support	7,807,785	7,110,483
Operating expenses		
Salaries, wages and benefits	2,627,903	2,581,971
Purchased services	3,107,642	2,928,666
Supplies and other	1,360,746	1,277,031
Interest	49,537	57,833
Depreciation and amortization	311,538	310,708
Total operating expenses	7,457,366	7,156,209
Income (loss) from operations	350,419	(45,726)
Nonoperating revenues and expenses		
Interest expense on swap agreements	(25,113)	(19,670)
Changes in fair value of interest rate swap agreements	78,963	(93,977)
Investment return, net	774,811	101,035
Other components of net periodic pension cost	(77,764)	(72,712)
Loss on advance refunding of debt	-	(27,435)
Other non-operating expenses	(25,245)	(23,711)
Excess of revenues over (under) expenses	1,076,071	(182,196)
Contributions to affiliates	(114)	(107)
Changes in funded status of defined benefit plans	345,266	(157,272)
Net assets released from restrictions used for purchases of property, plant, and equipment	21,873	5,989
Other	(5,426)	2,117
Increase (decrease) in net assets without donor restrictions	1,437,670	(331,469)
Changes in net assets with donor restrictions		
Gifts, grants and bequests	32,349	41,875
Net assets released from restrictions used for purchases of property, plant, and equipment	(21,873)	(5,989)
Net assets released from restrictions used for operations	(13,863)	(12,320)
Other	-	999
(Decrease) increase in net assets with donor restrictions	(3,387)	24,565
Increase (decrease) in net assets	1,434,283	(306,904)
Net assets		
Beginning of year	3,809,437	4,116,341
End of year	$ 5,243,720	$ 3,809,437

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, 2021 and 2020

(in thousands)	2021	2020
Operating activities		
Changes in net assets	$ 1,434,283	$ (306,904)
Adjustments to reconcile change in net assets to net cash, cash equivalents and restricted cash provided by operating activities		
Depreciation and amortization	311,538	310,708
Net realized and changes in unrealized gains on investments	(714,536)	(38,016)
Changes in fair value of interest rate swap agreements	(78,963)	93,977
Changes in funded status of defined benefit plans	(345,266)	157,272
Restricted contributions and investment income received	(15,541)	(7,861)
Return on equity method investments	(7,448)	(4,036)
Loss on advance refunding of debt	-	27,435
Other operating activities	1,515	4,821
Changes in assets and liabilities		
Patient accounts receivable	(102,350)	(8,855)
Inventories of supplies, prepaid expenses and other current assets	(13,976)	(21,255)
Due from affiliates, net	2,572	3,662
Pledges receivable	9,519	(17,441)
Other assets and other long-term liabilities, net	52,170	(3,178)
Accounts payable and accrued liabilities	17,898	70,076
Medical claims reserve	(1,350)	(5,749)
Deferred revenue	1,648	30,207
Advances from third-party payors	(16,665)	10,658
Accrued pension benefit costs	2,738	18,032
Estimated malpractice costs	30,624	49,245
Cash provided by operating activities	568,410	362,798
Investing activities		
Purchases of property, plant and equipment	(138,392)	(278,386)
Investment in equity method investments	(385)	(8,193)
Purchases of investment securities	(1,724,701)	(1,667,305)
Sales of investment securities	1,571,070	1,682,994
Payments received on affiliate notes	22,141	22,490
Advances on affiliate notes	(9,624)	(7,363)
Swap counterparty deposit	36,552	(52,982)
Other investing activities	3,104	-
Cash used in investing activities	(240,235)	(308,745)
Financing activities		
Restricted contributions and investment income received	15,541	7,861
Proceeds from long-term borrowings	8,000	375,606
Repayments of long-term debt	(46,411)	(420,111)
Proceeds from lines of credit	-	250,000
Repayments of lines of credit	(200,000)	(50,000)
Repayments of obligations under a financing lease	(11,763)	(11,289)
Other financing activities	(6,168)	227
Cash (used in) provided by financing activities	(240,801)	152,294
Change in cash, cash equivalents and restricted cash	87,374	206,347
Cash, cash equivalents, and restricted cash		
Beginning of year	933,288	726,941
End of year	$ 1,020,662	$ 933,288
Supplemental disclosure of cash flow information		
Purchases of property, plant and equipment in accounts payable	$ 5,712	$ 15,977
Assets acquired under finance leases	-	4,660
Assets acquired under operating leases	12,156	4,346
Interest paid	74,981	87,398

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 ("USFHP") contract, Potomac Home Health Care, Inc. ("PHHC"), a full service Medicare certified home health agency, Potomac Home Support, Inc. ("PHS"), a private pay services company, 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, Johns Hopkins Employer Health Programs, Inc. ("EHP"), a taxable third-party administrator for employee health benefit plans self-funded by the constituent employee sponsors, and Johns Hopkins Consolidated Services Center ("JHCSC"), a taxable distribution center providing commodity supplies to JHHS affiliates. JHHSC owned a 99.8% interest in Ophthalmology Associates, LLC ("OA"), a taxable professional services organization which was dissolved effective December 1, 2019. 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 due to having control of 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. See Note 15 for further details.

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, the actuarially determined pension benefits, medical claims reserve, and 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 held 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 held on deposit or invested daily. These investments are considered cash equivalents 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 return, net.

Restricted cash. Effective January 1, 2019, JHHS adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-18, "Statement of Cash Flows (Topic 230)" using the retrospective transition method. This guidance requires that the Consolidated Statements of Cash Flows explain the change during the period in the total of cash, cash equivalents and restricted cash.

JHHS holds cash that is restricted by bond agreements, to comply with hospital and/or foundation donor restrictions, to be used for campus development and other strategic investments, and to comply with contractual agreements. Restricted cash balances were $36.8 million and $40.5 million as of June 30, 2021 and 2020, respectively, and are classified within assets whose use is limited in the Consolidated Balance Sheets. See Note 5 for further details.

Patient accounts receivable. Patient accounts receivable consist primarily of amounts owed by various governmental agencies, insurance companies and patients. JHHS manages these receivables by regularly reviewing the accounts and contracts and by recording appropriate price concessions. JHHS reports accounts receivable at an amount equal to the consideration it expects to receive in exchange for providing healthcare services to its patients, which is estimated using contractual provisions associated with specific payors, historical reimbursement rates and analysis of past experience to estimate potential adjustments. JHHS writes off amounts that have been deemed to be uncollectible because of circumstances that affect the ability of payors to make payments as they occur.

Due from others. Due from others primarily includes receivables related to the hospital discharge pharmacies, pharmacy rebate accruals, grants, and third-party contracts.

Due from affiliates. Due from affiliates primarily includes loans and other receivable balances from certain affiliates that do not consolidate within JHHS. See Note 14 for further details.

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 net realizable value using a first in, first out method.

Assets whose use is limited. Assets whose use is limited ("AWUIL") restricted by donors are recorded at fair value at the date of donation. Investment gains or losses on investments of assets with donor restrictions are recorded as an increase or decrease in net assets with donor restrictions to the extent restricted by the donor or law. Investment gains on investment assets whose donor restrictions are met within the same year are reported as increases in net assets without donor restrictions. 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 and other strategic investments, pledges receivable, beneficial interest remainder trusts, Provider Relief Funds ("PRF") received under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") that have not been recognized as revenue, and net assets set aside pursuant to their donor restricted nature. 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 in the Consolidated Balance Sheets and Statements of Operations and Changes in Net Assets. 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 managed funds, which include hedge funds, private partnerships and other investments (collectively "alternative investments") which do not have readily ascertainable fair values and may be subject to withdrawal restrictions. The income or loss from these alternative investments is included in the Consolidated Statements of Operations and Changes in Net Assets in investment return, net 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), realized gains or losses related to the sale of investments, and changes in unrealized gains or losses on investments are included in the nonoperating 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 noncurrent on the Consolidated Balance Sheets include investments that are not expected to be converted to cash within one year; however, if needed, these investments can be made available for general expenditure.

Participation in Joint Ventures. JHHS participates in several joint ventures which JHHS has determined are central to its operations and mission. These investments are recorded within investments on the Consolidated Balance Sheets. 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 other revenue 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. JHHS has elected the cumulative earnings approach under ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” for determining cash flow presentation of distributions from its equity method investments. Distributions received are included in the Consolidated Statements of Cash Flows as operating activities, unless the cumulative distributions exceed JHHS’ portion of the cumulative equity in the net earnings of the joint venture, in which case the excess distributions are deemed to be returns of the investment and are classified as investing activities in the Consolidated Statements of Cash Flows.

Investments in companies in which JHHS does not have control, nor has the ability to exercise significant influence over operating and financial policies, are measured at cost with adjustments for observable changes in price or impairments (referred to as the measurement alternative in accordance with ASU 2016-01, “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”). JHHS performs a qualitative assessment on a quarterly basis and recognizes an impairment if there are sufficient indicators that the fair value of the investment is less than its carrying value.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. 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.

Capitalized costs of software 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.

Leases. JHHS leases property and equipment under finance and operating leases and evaluates whether a contract is or contains a lease at the inception of the contract. JHHS considers a contract to be a lease when control of an asset not owned by JHHS is obtained for a period of time and in exchange for consideration. The term of a lease may include options to renew or early termination options when JHHS is reasonably certain to exercise those options.

Lessee. JHHS, as a lessee, recognizes a right-of-use ("ROU") asset and lease liability on the Consolidated Balance Sheets for its operating and finance leases as of the lease commencement date. ROU assets represent JHHS' right to use the underlying asset and the lease liabilities represent JHHS' obligation to make lease payments measured on a discounted basis. For JHHS leases where the rate implicit in the lease is not readily available, JHHS utilizes its collateralized incremental borrowing rate based on the estimated interest rate for borrowing over a term similar to that of the lease payments available at commencement of the lease. Lease liabilities are recognized at the commencement date of the lease and are based on the present value of lease payments over the lease term. ROU assets are measured at an amount equal to the initial lease liability, plus any prepaid lease payments (less any incentives received, such as reimbursement for leasehold improvements) and initial direct costs, at the lease commencement date. JHHS does not record a ROU asset or lease liability on the Consolidated Balance Sheets for leases with a term of one year or less. These short-term leases are recorded on a straight-line basis within purchased services on the Consolidated Statements of Operations and Changes in Net Assets.

Lease contracts may contain lease and nonlease components, such as provisions to pay for other goods or services (e.g. pay for medical supplies or maintenance). For real estate leases, JHHS as a practical expedient has elected to account for lease and nonlease components together as a single combined lease component. For all other nonreal estate leases, JHHS accounts for the lease and nonlease components separately and allocates the contract payments to the lease and nonlease components based on estimated stand-alone selling prices.

Certain lease agreements for real estate include payments based on actual common area maintenance expenses and/or include rental payments adjusted periodically for inflation. These variable lease payments are recognized in purchased services in the Consolidated Statements of Operations and Changes in Net Assets but are not included in the ROU asset or liability balances in the Consolidated Balance Sheets. Lease agreements do not contain any material residual value guarantees, restrictions or covenants.

JHHS classifies its leases as either operating or finance depending upon the terms and conditions set forth in the lease. JHHS recognizes operating lease expense on a straight-line basis within purchased services in the Consolidated Statements of Operations and Changes in Net Assets over the term of the lease. The ROU asset is generally reduced each period by an amount equal to the difference between the operating lease expense and the amount of interest expense on the lease liability utilizing the effective interest method. Finance lease assets are amortized on a straight-line basis within depreciation over the term of the lease. Interest expense associated with finance leases is recorded using the effective interest method and is included in operating interest expense. JHHS recognizes variable expenses, other than those related to rates or indices, in operating expenses in the period in which the obligation is incurred.

Lessor. JHHS is also a lessor and sub-lessor of real estate under operating leases. JHHS records revenue associated with leases within other revenue in the Consolidated Statements of Operations and Changes in Net Assets. Lease payments under both classifications include fixed payments but are reduced for any lease incentives. Variable payments relating to the lease are recognized within other revenue in the Consolidated Statements of Operations and Changes in Net Assets. JHHS as a practical expedient has elected to combine all lease and nonlease components as a single combined component of the same contract.

JHHS recognizes income from operating leases on a straight-line basis over the term of the lease. The straight-line income is included in other revenue in the Consolidated Statements of Operations and Changes in Net Assets. Assets subject to operating leases are carried at cost within property, plant and equipment, net in the Consolidated Balance Sheets and are depreciated over their estimated useful lives.

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 expense was recognized for the years ended June 30, 2021 and 2020.

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. Deferred revenue includes JHHC's capitated receipts received in advance for future services to be provided, PRF and grant funding received where the conditions have not been met.

Accrued vacation. JHHS' employees earn vacation days at varying rates depending on years of service. Vacation time accumulates up to certain limits, at which time no additional vacation hours can be earned. Provided this hourly limit is not met, employees can continue to accumulate vacation hours and time can be carried over to future years. Certain employees receive a fixed amount of vacation time that does not carry over at the end of the calendar year. JHHS records a liability within accounts payable and accrued liabilities in the Consolidated Balance Sheets 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' Maryland hospitals receive 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 current 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. 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 interest expense on swap agreements as a nonoperating expense within excess of revenues over expenses on the Consolidated Statements of Operations and Changes in Net Assets.

The values 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 nonoperating 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.

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.

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 approved by the State of Maryland to operate as an authorized Medicaid managed care organization. Based on controlling financial interest, JHHC consolidates Priority Partners and records noncontrolling interests for 50% of the profits. See Note 5 for further details.

Other long-term liabilities. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities on the Consolidated Balance Sheets. See Note 10 for further details. Also included in other long-term liabilities are amounts owed to The Johns Hopkins University School of Medicine ("JHUSOM") for the restricted purpose of supporting JHUSOM's recruitment, employment, and start-up costs of new clinically-focused physician providers. See Note 15 for further details.

Pension benefit plans. JHHS' defined benefit plans are measured using actuarial techniques that reflect management's assumptions for discount rate, expected investment returns on plan assets, salary increases, expected retirement, mortality, and employee turnover. The discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) is determined with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that are designed to match expected benefit payments in future years. The expected rate of return is a judgmental matter that is reviewed annually, and was developed based on historical returns for the major asset classes, and considered both current market conditions and projected future conditions. The FASB guidance related to employers' 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. JHHS uses mark-to-market accounting as it relates to net assets and immediately recognizes changes in the fair value of plan assets and actuarial gains or losses in net assets annually. The components of pension expense, including service and interest costs, amortization of actuarial gains or losses, and the expected return on plan assets, are recorded on a monthly basis and are included within excess of revenues over expenses on the Consolidated Statements of Operations and Changes in Net Assets.

Net assets. Net assets without donor restrictions include undesignated amounts as well as amounts designated by the Board of Trustees for a specific purpose. Net assets with donor restrictions are those whose use has been limited by donors or law to a specific time period or purpose. JHHS also has net assets with donor restrictions that have been restricted by donors to be maintained in perpetuity. Income generated from these assets is available as restricted by the donor or for general program support.

Donor restricted gifts. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash to JHHS greater than one year are discounted using a rate of return that a market participant would expect to receive at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is satisfied. The gifts are reported as net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 are reported as other revenue in the Consolidated Statements of Operations and Changes in Net Assets.

Grants. JHHS receives various grants from private entities and agencies of the Federal and State Governments for the purpose of furthering its mission of providing patient care. 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.

JHHS and its affiliates receive contributions in the form of conditional government grants and other conditional donor contributions. These grants are carried out for research activities that benefit the general public, and not for the government's own use. Therefore, JHHS has determined that there is not an exchange back to the granting authority and accounts for these grants under the contribution model (ASC 958-605), which is outside the scope of ASC 606. The grants are considered conditional due to the requirement of spending the awarded funds on qualifying expenses and the right of return for unexpended funds. Unspent conditional contributions where cash has been received from grants totaled $16.1 million and $23.4 million as of June 30, 2021 and 2020, respectively, and are recorded in deferred revenue on the Consolidated Balance Sheets. As of June 30, 2021 and 2020, JHHS and its affiliates had $90.4 million and $63.1 million of conditional contributions for which the conditions have not been met and the funding has not been received, and therefore they have not been recorded on the Consolidated Balance Sheets.

Nonoperating 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 operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating revenues and expenses. For the years ended June 30, 2021 and 2020, nonoperating revenues and expenses are composed primarily of interest paid and changes in market value on interest rate swap agreements, investment return, net, other nonservice cost components of net periodic pension cost, loss on advance refunding of debt, funding for research activities conducted by JHUSOM, and other nonoperating services.

Excess of revenues over expenses. The Consolidated Statements of Operations and Changes in Net Assets include excess of revenues over expenses. Changes in net assets without donor restriction 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 donor restricted contributions which were to be used for the purposes of acquiring such assets).

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 FASB's 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, 2021 and 2020 amounted to $40.0 million and $37.8 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, 2021 and 2020.

New and Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. The previous standard delays the recognition of a credit loss on a financial asset until the loss is probable of occurring. The new standard removes the requirement that a credit loss be probable of occurring for it to be recognized, and requires entities to use historical experience, current conditions, and reasonable and supportable forecasts to estimate their future expected credit losses. The standard is required to be applied using the modified retrospective approach with a cumulative-effect adjustment to net assets, if any, upon adoption. ASU 2016-13 is effective for JHHS for fiscal years beginning after December 15, 2022. JHHS is currently evaluating the impact of this update on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement". ASU 2018-13 is intended to improve the effectiveness of disclosure requirements on fair value measurement. Amongst other changes, ASU 2018-13 removes: i) the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, ii) the requirement to disclose the policy for timing of transfers between levels, and iii) the disclosure of the valuation processes for Level 3 fair value measurements. The update is effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2019. JHHS adopted the provisions of this standard for the fiscal year ended June 30, 2021. There was no material impact to JHHS.

In August 2018, the FASB issued ASU 2018-14 "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)." ASU 2018-14 is effective for all employers that sponsor defined benefit pension or other postretirement plans, and modifies and clarifies certain disclosure requirements. Certain disclosures were removed and disclosures were added to improve the effectiveness by communicating information identified as most important to financial statement users. The update is effective for JHHS for fiscal years ending after December 15, 2021 with early adoption permitted. JHHS early adopted the provisions of this standard for the fiscal year ended June 30, 2021. The updates are fully retrospective and all required disclosures are included in Note 12.

In August 2018, the FASB issued ASU 2018-15 "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract." ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance also requires that the capitalized costs be expensed over the term of the hosting arrangement and that the expense and cash flows of the capitalized expense be presented in the same place on the statements of operations and statements of cash flows, respectively. Similarly, the capitalized costs are required to be presented on the Consolidated Balance Sheets in the same line item that a prepayment of the fees of the associated hosting arrangement would be presented. ASU 2018-15 is effective for JHHS for fiscal years beginning after December 15, 2020 with early adoption permitted. JHHS is currently evaluating the impact of this update on the financial statements.

In March 2020, the FASB issued ASU 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ASU 2020-04 provides optional expedients for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments in this update apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. ASU 2020-04 is effective for JHHS as of March 12, 2020 through December 31, 2022. JHHS is currently evaluating the effect of reference rate reform on its contracts, but the availability of these expedients and exceptions is expected to reduce the impact of reference rate reform on the consolidated financial statements of JHHS.

2. Revenue Recognition and Accounts Receivable

Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which JHHS expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, JHHS bills its patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by JHHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. JHHS believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in JHHS hospitals receiving inpatient acute care services or patients receiving services in outpatient centers. JHHS measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when there are no further services required for the patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and JHHS does not believe it is required to provide additional goods or services to the patient.

Because all of its patient service performance obligations relate to contracts with a duration of less than one year, JHHS has elected to apply the optional exemption provided in ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

JHHS determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with JHHS' policy, and implicit price concessions provided to uninsured patients. JHHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Fixed discounts are generally determined based upon regulatory authorities in the case of Maryland hospitals and by legislative statute in the case of Medicare and Medicaid, and negotiated in the case of commercial payors. JHHS determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients using a portfolio approach as a practical expedient. The portfolio approach is being used as JHHS has a large volume of similar contracts with similar classes of customers. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. JHHS reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. No significant amounts of revenues were recognized in the current year due to changes in the estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the results of an adverse change in the patient's or third-party payor's ability to pay are recorded as bad debt expense. Bad debt expense is reported as a component of supplies and other in the Consolidated Statements of Operations and Changes in Net Assets and was not material for the years ended June 30, 2021 and 2020.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Adjustments mandated by the Health Services Cost Review Commission ("Commission" or "HSCRC") for hospitals in the State of Maryland are included in contractual adjustments, a portion of which are also included in established rates. See Note 16 for further discussion on the HSCRC and regulated rates. 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.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge JHHS' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon JHHS and its Affiliates. In addition, the contracts JHHS and its Affiliates have with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and JHHS' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

During the year ended June 30, 2021, SMH received final audits for Medicare cost report year 2019. As of June 30, 2021, SMH has Medicare cost report years 2010, 2011, 2013, 2015, 2016, 2017, 2018 and 2020 open.

As of June 30, 2021, cost reports for JHACH through 2015 have been audited by the fiscal intermediary. The 2015 cost report was used for the fiscal 2017 rate period, which is the last rate period under the cost-based method. The 2016 and 2017 fiscal years will not be audited for rates under the cost-based method. 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, Agency for Health Care Administration ("AHCA"). During the year ended June 30, 2021, JHACH made no adjustments to its estimated third party settlement liability. During the year ended June 30, 2020, JHACH reduced its estimated third party settlement liability by approximately $5.0 million.

Consistent with JHHS' mission, care is provided to all patients regardless of their ability to pay. Therefore, JHHS has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts JHHS expects to collect based on its collection history with those patients.

Patients who meet JHHS' criteria for charity care are provided care 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 JHHS does 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 $76.5 million and $79.6 million for the years ended June 30, 2021 and 2020, 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 divided by gross patient service revenue.

The composition of net patient service revenue by primary payor for the years ended June 30 is as follows (in thousands):

	2021		2020	
Medicare	$ 1,326,875	31.5%	$ 1,165,999	30.8%
Medicaid/Medicaid MCO	352,764	8.4%	366,217	9.7%
Blue Cross	907,947	21.6%	835,948	22.1%
HMO	948,019	22.5%	781,963	20.7%
Commercial	401,384	9.5%	361,072	9.5%
Other payors	182,765	4.3%	183,568	4.9%
Self pay	91,163	2.2%	86,146	2.3%
Net patient service revenue	$ 4,210,917	100.0%	$ 3,780,913	100.0%

Revenue from patient's deductibles and coinsurance is included in the preceding categories based on the primary payor.

JHHS has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to JHHS' expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, JHHS does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Insurance Premium Revenue

Insurance premium revenue contracts are within the scope of Topic 944, Financial Services—Insurance. For the years ended June 30, 2021 and 2020, insurance premium revenue recognized was $2.412 billion and $2.253 billion, respectively. The related expenses associated with the insurance premium revenue were $2.336 billion and $2.212 billion for the years ended June 30, 2021 and 2020, respectively.

All of Priority Partners insurance premium revenue is received from the State of Maryland and is recognized as revenue during the period in which Priority Partners is obligated to provide services to its enrollees. The HealthChoice contract with Priority Partners is for a one-year term and is renewable annually on January 1 at the mutual discretion of both the State of Maryland and Priority

Partners. Insurance premium revenues generated under the contract were $1.663 billion and $1.544 billion for the years ended June 30, 2021 and 2020, respectively. The current contract extends through December 31, 2021.

JHMSC entered into a contract with the Department of Defense to provide the TRICARE Prime benefit to eligible beneficiaries enrolled in the USFHP. Under the USFHP contract, JHMSC provides services covered under the TRICARE Designated Provider Contract to enrollees for a monthly capitation fee. Insurance premium revenues generated under the contract were $455.4 million and $452.5 million for the years ended June 30, 2021 and 2020, 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 U.S. Government's discretion. The Base Year was exercised and the eighth Option Period will begin on October 1, 2021.

A significant portion of Hopkins Health Advantage insurance premium revenue is received from the Centers for Medicare and Medicaid Services ("CMS") and is recognized as revenue during the period in which Hopkins Health Advantage is obligated to provide services to its enrollees. The CMS contract with Hopkins Health Advantage is for a one-year term and is renewable annually on January 1 at the mutual discretion of both CMS and Hopkins Health Advantage. Insurance premium revenues generated under the contract were $294.5 million and $254.6 million for the years ended June 30, 2021 and 2020, respectively. The current contract extends through December 31, 2021.

Other Revenue

The composition of other revenue for the years ended June 30 is as follows (in thousands):

	2021		2020	
Discharge pharmacy revenues	$ 518,531	44.3%	$ 465,411	43.7%
CARES Act funds	187,878	16.0%	172,169	16.2%
Grants and contribution revenue	73,701	6.3%	71,330	6.7%
Compensated services	60,545	5.2%	67,727	6.4%
Management fees	71,624	6.1%	60,812	5.7%
Lab revenue	34,006	2.9%	30,908	2.9%
Other	224,915	19.2%	195,461	18.4%
Other revenue	$ 1,171,200	100.0%	$ 1,063,818	100.0%

Other revenues consist principally of discharge pharmacy revenues, PRF (see below), grants and contribution revenue, compensated services, management fees and lab revenues. JHHS discharge pharmacies offer a full inventory of standard, specialty and over-the-counter medications. Discharge pharmacy revenue is recognized at the point in time when prescriptions are filled. Management fees represent payments for management services provided to the University, primarily for operations of imaging facilities, as well as other external parties. Compensated services include fees for centralized administrative services provided to nonconsolidating affiliates. JHH provides lab services for testing samples provided by patients at outreach draw stations. Revenue for management services, compensated services and lab testing is recorded in the period in which the performance obligation is satisfied.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was first detected. The virus spread worldwide and on March 11, 2020, the World Health Organization designated the COVID-19 outbreak as a global pandemic. The spread of COVID-19 and the ensuing response of federal, state and local authorities resulted in a reduction in JHHS' patient volumes and also adversely impacted net patient service revenues as well as total operating expenses for the years ended June 30, 2021 and 2020. Federal, state and local authorities have taken several actions designed to assist healthcare providers in providing care to COVID-19 and other patients to mitigate the adverse economic impact of the COVID-19 pandemic.

While JHHS experienced significant declines in patient volumes and related patient service revenues as a result of the COVID-19 pandemic in fiscal year 2020, patient volumes and related patient service revenues rebounded in fiscal year 2021. JHHS continues to review its long-lived assets for indicators of impairment and does not believe that the effects are significant enough or of a long enough duration to indicate impairment of its long-lived assets as of and for the years ended June 30, 2020 and 2021.

CARES Act Funding

In response to COVID-19, the CARES Act, was signed into law on March 27, 2020. The CARES Act provides PRF to hospitals and other healthcare providers on the front lines of the COVID-19 response. These funds are to be used to support healthcare related expenses or lost revenues attributable to COVID-19. During the years ended June 30, 2021 and 2020, JHHS received a combined total of approximately $365.7 million of PRF, of which approximately $187.9 million and $172.2 million was recognized as other revenue in the Consolidated Statements of Operations and Changes in Net Assets in fiscal year 2021 and 2020, respectively. The remaining approximately $5.6 million is included in deferred revenue on the Consolidated Balance Sheets and may be recorded as revenue in future periods, subject to certain terms and conditions and ongoing regulatory clarifications.

Employer Payroll Tax Deferrals

Under the provisions of the CARES Act, employers are allowed to defer payment of the employer share of the Social Security tax they otherwise are responsible for submitting to the federal government with respect to their employees. Employers generally are responsible for paying a 6.2% tax on employee wages. The provision required that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021, and the other half by December 31, 2022. JHHS has approximately $59.5 million of payroll tax deferrals that are included in accounts payable and accrued liabilities and other long-term liabilities on the Consolidated Balance Sheets as of June 30, 2021.

3. Pledges Receivable

As of June 30, 2021 and 2020, the value of pledges receivable before discounts was $41.5 million and $52.3 million, respectively. Pledges receivable have been discounted at rates ranging from 0.07% to 5.50% of the following (in thousands):

As of June 30, 2021	**1 Year**	**2 –5 Years**	**5 Years or Greater**	**Totals**
Departmental campaigns	$ 9,579	$ 15,586	$ 2,772	$ 27,937
Future campus development	4,911	5,262	356	10,529
	$ 14,490	$ 20,848	$ 3,128	$ 38,466

As of June 30, 2020	**1 Year**	**2 –5 Years**	**5 Years or Greater**	**Totals**
Departmental campaigns	$ 6,220	$ 10,468	$ 6,486	$ 23,174
Future campus development	15,568	8,892	351	24,811
	$ 21,788	$ 19,360	$ 6,837	$ 47,985

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

4. Fair Value Measurements

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. 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. Interest rate swap agreements are valued using the income approach, while each of the remaining financial instruments below have been valued utilizing the market approach.

The following table presents the financial instruments carried at fair value as of June 30, 2021 grouped by hierarchy level:

	Total Fair Value	Level 1	Level 2
Assets			
Cash and cash equivalents (1)	$ 1,020,662	$ 1,020,662	$ -
Commercial paper (1)	153,574	-	153,574
Certificates of deposit (1)	1,071	-	1,071
U.S. Treasuries (2)	303,573	-	303,573
Corporate bonds (2)	336,805	-	336,805
Asset backed securities (2)	244,478	-	244,478
Equities and equity funds (3)	1,919,400	1,919,400	-
Fixed income funds (4)	498,569	498,569	-
Totals	$ 4,478,132	$ 3,438,631	$ 1,039,501
Liabilities			
Interest rate swap agreements (5)	$ 238,576	$ -	$ 238,576

The following table presents the financial instruments carried at fair value as of June 30, 2020 grouped by hierarchy level:

	Total Fair Value	Level 1	Level 2
Assets			
Cash and cash equivalents (1)	$ 933,288	$ 933,288	$ -
Commercial paper (1)	45,450	-	45,450
Certificates of deposit (1)	1,181	-	1,181
U.S. Treasuries (2)	294,531	-	294,531
Corporate bonds (2)	381,701	-	381,701
Asset backed securities (2)	233,025	-	233,025
Equities and equity funds (3)	1,390,156	1,390,156	-
Fixed income funds (4)	429,071	429,071	-
Totals	$ 3,708,403	$ 2,752,515	$ 955,888
Liabilities			
Interest rate swap agreements (5)	$ 317,539	$ -	$ 317,539

(1) Cash and cash equivalents and commercial paper include investments with original maturities of three months or less. Certificates of deposit and commercial paper are carried at amortized cost, which approximates fair market value. Certificates of deposit and commercial paper that have original maturities greater than three months, but less than one year are considered short-term investments. Cash and cash equivalents are rendered Level 1 due to their frequent pricing and ease of converting to cash. Computed prices and frequent evaluation versus fair value render commercial paper and 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 Note 10, 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 and are rendered Level 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. JHHS has elected the fair value option by individual alternative investment and therefore these investments are valued utilizing the 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, 2021 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	$ 146,554	Monthly	5 to 60 days
Equity long/short hedge funds (2)	87,348	Monthly or quarterly	5 to 60 days
Structured credit hedge funds (3)	20,041	Quarterly	90 days
Commingled equity funds (4)	438,488	Daily or monthly	1 to 10 days
Commingled fixed income (5)	97,814	Daily or monthly	1 to 15 days
Event driven hedge funds (6)	70,198	Monthly or quarterly	60 to 90 days
Total	$ 860,443		

The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2020 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	$ 162,454	Monthly	5 to 60 days
Equity long/short hedge funds (2)	69,854	Monthly or quarterly	5 to 60 days
Structured credit hedge funds (3)	16,961	Quarterly	90 days
Commingled equity funds (4)	274,637	Daily or monthly	1 to 10 days
Commingled fixed income (5)	94,257	Daily or monthly	1 to 15 days
Event driven hedge funds (6)	50,741	Monthly or quarterly	60 to 90 days
Total	$ 668,904		

(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) Structured credit hedge funds: Invest in variety of credit assets such as nonagency residential mortgage-backed securities, asset-backed securities, commercial mortgage-backed securities, collateralized loan obligations and collateralized debt obligations.

(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.

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):

	2021 Carrying Amount	2020 Carrying Amount
Cash and cash equivalents measured at fair value	$ 1,020,662	$ 933,288
Cash and cash equivalents included in AWUIL	(36,829)	(40,497)
Total cash and cash equivalents	$ 983,833	$ 892,791
U.S. Treasuries	$ 227,506	$ 213,836
Commercial paper	153,574	45,450
Certificates of deposit	1,071	1,181
Corporate bonds	243,933	280,717
Asset backed securities	176,807	169,523
Fixed income funds	419,637	332,416
Equities and equity funds	1,395,727	980,282
Short and long-term investments measured at fair value	2,618,255	2,023,405
Investments in affiliates	312,566	303,979
Investments measured at NAV as a practical expedient	860,443	668,904
Total short and long-term investments	$ 3,791,264	$ 2,996,288

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

	2021 Carrying Amount	2020 Carrying Amount
U.S. Treasuries	$ 76,067	$ 80,695
Corporate bonds	92,872	100,984
Asset backed securities	67,671	63,502
Fixed income funds	78,932	96,655
Equities and equity funds	523,673	409,874
Assets whose use is limited measured at fair value	839,215	751,710
Cash in AWUIL reported as cash and cash equivalents on leveling table	36,829	40,497
Pledges receivable	38,466	47,985
Other	26,130	21,113
Total assets whose use is limited	$ 940,640	$ 861,305

The investment and assets whose use is limited balances noted above include amounts held by three pooled investment accounts shared by the affiliates of JHHS. All investments held within the pooled accounts are owned by JHHS and its affiliates. The amounts held within the liquid, intermediate and other investment pools were $398.8 million, $375.6 million, and $1.9 billion, respectively, as of June 30, 2021. The amounts held within the liquid, intermediate and other investment pools were $296.9 million, $421.3 million, and $1.5 billion, respectively, as of June 30, 2020.

Investment income, net 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):

	2021	2020
Investment income	$ 60,275	$ 63,019
Realized gains on investments	158,643	24,227
Changes in unrealized gains on investments	555,893	13,789
Total investment return, net	$ 774,811	$ 101,035

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

Investment	Equity / Other	%	2021	2020
Johns Hopkins Medicine International, LLC (“JHI”)	Equity	50.00 %	$ 59,253	$ 67,616
Johns Hopkins Home Care Group, Inc. (“JHHCG”)	Equity	50.00 %	19,265	16,166
FSK Land Corporation	Equity	50.00 %	16,860	15,480
Mt. Washington Pediatric Hospital and Foundation	Equity	50.00 %	67,471	57,282
JHMI Utilities, LLC	Equity	50.00 %	27,902	24,081
Dome Corporation and Subsidiaries	Equity	50.00 %	9,066	7,741
West County, LLC	Equity	50.00 %	6,172	6,936
Johns Hopkins Health Care and Surgery Centers, LLC	Equity	50.00 %	21,138	22,158
MCIC Bermuda	Other	10.00 %	75,368	69,462
Other investments			10,071	17,057
Total			$ 312,566	$ 303,979

Investments presented as “Other” in the table above include investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments. As of June 30, 2021 and 2020, investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments were $76.1 million and $70.2 million, respectively. There were no adjustments to these investments’ cost for changes in price or impairments for the years ended June 30, 2021 and 2020.

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, 2021 and 2020 (in thousands):

	2021	2020
Assets	$ 648,214	$ 630,241
Liabilities	328,837	320,844
Revenues	285,271	289,935
Expenses	267,970	279,330

JHHS consolidates certain affiliates that it owns 50% or more, but less than 100%, because JHHS has control over those affiliates. The net assets without donor restrictions activity attributable to the noncontrolling interests consisted of the following as of June 30, (in thousands):

		2021		2020
Net assets without donor restrictions attributable to noncontrolling interests at beginning of period	$	86,079	$	74,049
Income attributable to noncontrolling interests		22,458		11,692
(Distributions) contributions attributable to noncontrolling interests		(8,349)		338
Net assets without donor restrictions attributable to noncontrolling interests at end of period	$	100,188	$	86,079

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Consolidated Balance Sheets that sum to the total amounts shown in the Consolidated Statements of Cash Flows:

		2021		2020
Cash and cash equivalents	$	983,833	$	892,791
Restricted cash included in assets whose use is limited - used for current liabilities		4,025		3,840
Restricted cash included in assets whose use is limited by donors or grantors (PRF)		5,693		18,052
Restricted cash included in assets whose use is limited by donors or grantors		4,954		2,370
Restricted cash included in assets whose use is limited by Board of Trustees		21,818		15,899
Restricted cash included in assets whose use is limited - other		339		336
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	$	1,020,662	$	933,288

6. Property, Plant and Equipment

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

	2021		2020	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land and land improvements	$ 202,169	$ 31,236	$ 199,754	$ 27,572
Buildings and improvements	2,655,516	1,227,427	2,660,558	1,133,215
Fixed and moveable equipment	2,515,267	1,422,544	2,492,472	1,355,613
Capitalized software	163,261	143,372	160,078	138,518
Construction in progress	75,329	-	100,652	-
	$ 5,611,542	$ 2,824,579	$ 5,613,514	$ 2,654,918

During the year ended June 30, 2021 and 2020, JHHS retired long-lived assets determined to have no future value. During 2021, the original cost and corresponding accumulated depreciation of these long-lived assets was $130.6 million and $128.9 million, respectively. During 2020, the original cost and corresponding accumulated depreciation of these long-lived assets was $73.1 million and $66.6 million, respectively. No proceeds from retirement were received in 2021 or 2020.

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):

	2021	2020
Balance, July 1	$ 158,138	$ 165,429
Incurred related to		
Current year	1,839,735	1,676,023
Prior year	(40,219)	(8,884)
Total incurred	1,799,516	1,667,139
Paid related to		
Current year	1,672,357	1,517,885
Prior year	117,919	156,545
Total paid	1,790,276	1,674,430
Balance, June 30	$ 167,378	$ 158,138

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	2021	2020
Tax Exempt Maryland Health and Higher Education Facilities ("MHHEFA") Bonds and Notes						
1985 Series A and B – Pooled Loan Program Issue (JHHSC)	0.50%	2035	7/19/2023	$ -	$ 1,548	$ 1,788
2004 – Commercial Paper Revenue Notes Series B (JHBMC)	0.22%	2025	6/28/2022	101,990	35,760	41,690
2011 Series A - Revenue Bonds (JHH)	3.75% to 5.00%	2021	N/A	74,615	-	7,110
2012 Series B - Revenue Bonds (JHH)	3.25% to 5.00%	2022	N/A	97,560	8,230	12,070
2013 Series C – Revenue Bonds (JHHSC)	5.00%	2023	N/A	238,000	3,765	5,526
2015 Series A - Revenue Bonds (JHHSC)	2.00% to 5.00%	2040	N/A	134,735	121,835	124,216
2016 Series A - Revenue Bonds (JHHSC)	0.55%	2023	5/31/2023	48,565	25,710	32,140
2016 Series B - Revenue Bonds (JHHSC)	0.57%	2042	5/31/2023	48,245	48,245	48,245
2017 Series B - Revenue Bonds (JHHSC)	0.63%	2038	10/1/2024	165,825	151,095	153,160
2012E/2017C Series - Revenue Bonds (JHHSC)	0.58%	2057	11/1/2022	100,000	100,000	100,000
2018 Series A - Revenue Bonds (JHHSC)	0.46%	2048	6/1/2023	48,245	48,245	48,245
2018 Series B - Revenue Bonds (JHHSC)	0.53%	2046	6/1/2023	88,250	88,250	88,250
Tax Exempt City of St. Petersburg Health Facilities Authority Revenue Bonds						
2012 Series A – Revenue Refunding Bonds (JHACH)	0.52%	2034	6/1/2024	102,400	85,800	87,925
Taxable Revenue Bonds						
2013 Series – Taxable Bonds (JHHSC)	2.77%	2023	N/A	148,165	100,000	100,000
2016 Series – Taxable Bonds (JHHSC)	3.84%	2046	N/A	690,910	690,910	690,910
2017 Series A - Taxable Revenue Bonds (JHHSC)	0.94%	2027	1/25/2027	165,200	161,973	162,723
2018 Series - Taxable Revenue Bonds (JHHSC)	0.75%	2029	6/1/2029	50,320	40,890	45,090
2019 Series - Taxable Revenue Bonds (JHHSC)	2.29%	2026	N/A	39,470	39,470	39,470
2020 Series - Taxable Revenue Bonds (JHHSC)	2.42%	2030	N/A	100,000	100,000	100,000
Other debt						
Note Payable (JHHC)	2.62%	2024	N/A	5,000	3,242	5,000
Note Payable (JHHC)	3.41%	2022	12/18/2022	3,006	956	778
					1,855,924	1,894,336
Unamortized premiums and discounts, net					34,500	36,745
Unamortized debt issuance costs					(5,932)	(6,273)
					1,884,492	1,924,808
Current maturities of long-term debt					(80,152)	(46,411)
Total long-term debt, net of current portion					$ 1,804,340	$ 1,878,397

Financing expenses. Financing expenses incurred in connection with the issuance of debt are presented in the Consolidated Balance Sheets 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, 2021 and 2020 was $0.4 million and $0.5 million, 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 "Obligated Group Members"). All of the debt of the JHHS Obligated Group is parity debt, and as such is jointly and severally liable through a claim on and a security interest in all of the receipts as defined in the Master Loan Agreement with MHHEFA of the Obligated Group Members. The Obligated Group Members are required to achieve a defined minimum debt service coverage ratio each year. The outstanding JHHS Obligated Group parity debt was $1.9 billion as of June 30, 2021 and 2020.

2016 Series Taxable Revenue Bonds – JHHS

In January 2020, JHHSC closed the additional Series 2016 taxable bond issuance of $190.9 million to advance refund a portion of its JHHS 2013C series revenue bonds. The additional Series 2016 taxable bonds maintain the same terms and structure as the original Series 2016 taxable bonds with a bullet maturity in 2046 and semiannual interest payments based on a fixed rate.

2019 Series Taxable Revenue Bonds – JHHS
In December 2019, JHHSC closed the Series 2019 taxable loan of $39.5 million to advance refund a portion of its JHH 2011A series revenue bonds. The Series 2019 taxable loan matures in May 2026 and pays principal annually and interest monthly based on a fixed rate. JHHS recorded a loss on advance refunding of $0.1 million for the year ended June 30, 2020 related to the Series 2019 taxable bonds.

2020 Series Taxable Revenue Bonds – JHHS
In January 2020, JHHSC closed the Series 2020 taxable bond issuance of $100.0 million to advance refund a portion of its JHH 2012B series revenue bonds and its JHHS 2013C series revenue bonds. The Series 2020 taxable bonds are structured with a ten year bullet maturity and semiannual interest payments based on a fixed rate. JHHS recorded a loss on advance refunding of $27.3 million for the year ended June 30, 2020 related to the Series 2020 taxable bonds.

Letters of Credit and Intermediate Financing Vehicles
In connection with the 2004 MHHEFA Commercial Paper Revenue Notes, recorded within current portion of long-term debt on the Consolidated Balance Sheets, JHBMC has a $35.8 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 June 28, 2022 subject to extension or earlier termination. No amounts were outstanding as of June 30, 2021 or 2020.

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. The table above notes the renewal dates for the outstanding variable-rate notes.

For the debt of JHHS and Affiliates, total maturities of debt and sinking fund requirements during the next five fiscal years and thereafter are as follows as of June 30, 2021 (in thousands):

2022	$ 80,152
2023	146,436
2024	34,163
2025	45,037
2026	42,200
Thereafter	1,507,936
	$ 1,855,924

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):

	2021	2020
Net interest costs		
Capitalized	$ 903	$ 6,722
Expensed	74,650	77,503
	$ 75,553	$ 84,225
Interest costs paid	$ 74,981	$ 87,398

Lines of Credit

JHHSC, JHH, and the other JHHS Obligated Group members maintain multiple short-term revolving line of credit facilities (each a "Facility" and collectively the "Facilities") as of June 30, 2021 and 2020. If drawn upon, the Facilities constitute short-term indebtedness as defined under the Master Loan Agreement. The total aggregate principal amount of the Facilities is $300.0 million and $500.0 million as of June 30, 2021 and 2020, respectively. The obligations of the JHHS Obligated Group with respect to their payment obligations for each Facility have been certified as Parity Obligations. The loans made under each Facility bear interest at rates measured against one-month LIBOR plus an applicable margin. Each Facility requires repayment of the principal drawn thereunder plus accrued interest thereon on or before the expiration of the Facility. There is no outstanding balance of these Facilities as they remain undrawn as of June 30, 2021. The total amount drawn on these Facilities as of June 30, 2020 was $200.0 million.

9. Leases

JHHS has operating and finance leases for medical spaces, corporate offices, storage spaces, and certain medical and office equipment. Real estate lease agreements typically have initial terms of five to ten years and equipment lease agreements typically have initial terms of three to five years.

The components of lease cost for the period ended June 30 are as follows (in thousands):

	2021	2020
Operating lease cost(1)	$ 29,915	$ 32,492
Finance lease cost		
Amortization of right-of-use assets(2)	12,110	12,008
Interest on lease liabilities(3)	5,084	5,449
Short-term lease cost(1)	2,816	3,502
Variable lease cost(1)	20,245	17,115
Total lease cost	$ 70,170	$ 70,566

(1) Expenses are included in purchased services in the Consolidated Statements of Operations and Changes in Net Assets

(2) Expenses are included in depreciation and amortization in the Consolidated Statements of Operations and Changes in Net Assets

(3) Expenses are included in interest in the Consolidated Statements of Operations and Changes in Net Assets

Variable lease cost represents a significant portion of total lease cost. This is due to JHHS' election to combine lease and nonlease components for real estate contracts. Expenses that are generally variable, such as common area maintenance, are included in the variable lease cost above.

Supplemental cash flow information related to leases for the period ended June 30 are as follows (in thousands):

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 31,169	$ 32,455
Operating cash flows from finance leases	5,143	5,746
Financing cash flows from finance leases	11,763	11,289

Additional lease information as of and for the period ended June 30 are as follows (in thousands):

	2021	2020
Weighted average remaining lease term		
Operating leases	6.2 years	6.1 years
Finance leases	9.5 years	11.5 years
Weighted average discount rate		
Operating leases	2.7 %	2.8 %
Finance leases	4.3 %	4.5 %

Future maturities of lease liabilities are as follows (in thousands):

	Operating Leases	Finance Leases	Total
Year Ending June 30,			
2022	$ 28,349	$ 17,654	$ 46,003
2023	25,295	17,695	42,990
2024	19,255	17,894	37,149
2025	15,498	16,015	31,513
2026	12,841	15,336	28,177
Thereafter	32,147	53,077	85,224
Total lease payments	133,385	137,671	271,056
Less: Imputed interest	(10,519)	(22,647)	(33,166)
Total lease obligations	122,866	115,024	237,890
Less: Current obligations	(25,253)	(13,003)	(38,256)
Long-term lease obligations	$ 97,613	$ 102,021	$ 199,634

Real estate leases may include one or more options to renew that can extend the lease term for an additional one to ten years. Some real estate leases include options to terminate the lease within five years. JHHS does not recognize these options as part of its ROU assets and lease liabilities because these options are not reasonably likely to be exercised. Equipment lease agreements typically do not contain options to extend the term or terminate the lease.

JHHS is also a lessor and sub-lessor of real estate under operating leases. Lease income for the years ended June 30, 2021 and 2020 was $27.6 million and $25.6 million, respectively, which is included in other revenue in the Consolidated Statements of Operations and Changes in Net Assets. Most of JHHS' leases include operating expenses such as utilities and maintenance costs in rent charges. However, variable lease income is not material.

At June 30, 2021 and 2020, land and buildings with a net book value of $40.8 million and $41.5 million, respectively, were leased to various unrelated organizations with terms ranging from one month to 38 years. These assets are included in property, plant, and equipment, net on the Consolidated Balance Sheets.

Included in the above disclosures are amounts related to leases between JHHS and its unconsolidated affiliates. See Note 14 for further details about these transactions.

10. 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 on the Consolidated Balance Sheets. The total notional amount of interest rate swap agreements was $964.3 million and $988.1 million as of June 30, 2021 and 2020, respectively.

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

Swap Type	Expiration Date	Counterparty	JHHS Pays	JHHS Receives	Notional Amount at June 30 2021	Notional Amount at June 30 2020
Fixed	2023	J.P. Morgan	3.3290 %	67% of 1-Month LIBOR	$ 33,960	$ 44,390
Fixed	2025	Bank of America	3.3265 %	67% of 1-Month LIBOR	35,760	41,690
Fixed	2021	J.P. Morgan	3.9190 %	68% of 1-Month LIBOR	2,315	6,980
Fixed	2034	Royal Bank of Canada	3.6235 %	62.2% of 1-Month LIBOR + 0.27%	14,130	14,130
Fixed	2034	Citibank, N.A.	3.6235 %	62.2% of 1-Month LIBOR + 0.27%	23,570	23,570
Fixed	2026	PNC	4.1220 %	67% of 1-Month LIBOR	150,000	150,000
Fixed	2026	PNC	4.1330 %	67% of 1-Month LIBOR	150,000	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	74,575	75,625
Fixed	2038	Merrill Lynch Capital Services	3.8091 %	67% of 1-Month LIBOR	74,950	76,000
Fixed	2027	Goldman Sachs Capital Markets, L.P.	3.6910 %	67% of 1-Month LIBOR	4,990	5,710
Fixed	2047	Citibank, N.A.	3.8505 %	61.8% of 1-Month LIBOR + 0.25%	60,000	60,000
					$ 964,250	$ 988,095

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

	Derivatives Reported as Liabilities			
	2021		2020	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps	Other long-term liabilities	$ 238,576	Other long-term liabilities	$ 317,539

Derivatives as of June 30 (in thousands):

Classification of derivative loss in the Consolidated Statements of Operations and Changes in Net Assets	Amount of Loss Recognized in Change in Net assets without donor restrictions 2021	2020
Interest rate swaps		
Nonoperating revenue (expense)	$ 78,963	$ (93,977)

11. Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30 (in thousands) are restricted to:

	2021	2020
Subject to expenditure for a specified purpose		
Purchase of property, plant, and equipment	$ 12,191	$ 26,031
Health care services	64,927	58,668
Health education and counseling	8,602	7,620
Indigent care	5,175	4,205
Restricted pledge fund	25,222	31,244
Total subect to expenditure for a specified purpose	116,117	127,768
Funds, cash and securities held into perpetuity		
Health care services	59,508	52,193
Health education and counseling	13,802	12,853
Total funds, cash and securities held in perpetuity	73,310	65,046
Total net assets with donor restrictions	$ 189,427	$ 192,814

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 Uniform Prudent Management of Institutional Funds Act (“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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

12. Pension Plans

The Affiliates sponsor a variety of defined benefit pension plans (the "Plans") covering most of their employees. The retirement income benefits are based on a combination of years of service and compensation at various points of service. Changes in net assets without donor restrictions during the year ended June 30, 2020 reflect a Board of Trustees approved amendment to the Plans, which resulted in a reduction of $(59.7) million in the pension liability referred to as a plan amendment liability.

For the year ended June 30, 2021, SMH and HCGH completed termination of their pension plans. Final distributions have been made to plan participants resulting in no pension plan asset or liability associated with either plan as of June 30, 2021.

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, 2021 and 2020 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.

Actuarial losses affecting the benefit obligation in 2021 are principally due to an increase in the ultimate rate of compensation increase and changes in the census data, offset by an increase in the discount rate and change in the mortality projection scale. Actuarial losses affecting the benefit obligation in 2020 are principally due to the decrease in the discount rate and changes in the census data, offset by changes in the mortality projection scale.

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

Change in benefit obligation	**2021**	**2020**
Benefit obligation as of beginning of year	$ 3,121,537	$ 2,817,530
Service cost	90,615	84,278
Interest cost	92,681	99,862
Plan amendment liability	-	(59,659)
Actuarial loss	80,524	354,635
Benefits paid	(88,511)	(175,109)
Benefit obligation as of June 30	$ 3,296,846	$ 3,121,537

Change in plan assets	**2021**	**2020**
Fair value of plan assets as of beginning of year	$ 2,027,528	$ 1,898,832
Actual return on plan assets	439,927	164,452
Employer contribution	166,421	139,353
Benefits paid	(88,511)	(175,109)
Fair value of plan assets as of June 30	$ 2,545,365	$ 2,027,528

Funded Status as of June 30	**2021**	**2020**
Fair value of plan assets	$ 2,545,365	$ 2,027,528
Projected benefit obligation	(3,296,846)	(3,121,537)
Unfunded status	$ (751,481)	$ (1,094,009)

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

	2021	**2020**
Net pension asset	$ 5,398	$ 9,986
Net pension liability	(756,879)	(1,103,995)
Net amount recognized	$ (751,481)	$ (1,094,009)

Aside from the SHI plan in 2021 and the SMH plan in 2020, the projected benefit obligation is greater than the fair value of plan assets for all plans that are aggregated within JHHS' consolidated financial statements. The net pension asset is recorded within other assets on the Consolidated Balance Sheets.

Amounts not yet recognized in net periodic benefit cost and included in net assets without donor restrictions consist of (in thousands):

	2021	**2020**
Actuarial net loss	$ 794,882	$ 1,146,784
Prior service cost (credit)	(53,023)	(59,659)
Net amount not yet recognized	$ 741,859	$ 1,087,125

The following table summarizes the accumulated benefit obligation (ABO) for all plans, the ABO and fair value of plan assets for defined benefit pension plans with ABO in excess of plan assets, and the projected benefit obligation (PBO) and fair value of plan assets for defined benefit plans with PBO in excess of plan assets (in thousands):

ABO - all plans	$ 2,988,031	$ 2,872,046
Plans with ABO in excess of plan assets:		
ABO	$ 2,920,866	$ 2,871,954
Fair value of plan assets	$ 2,471,553	$ 2,017,440
Plans with PBO in excess of plan assets:		
PBO	$ 3,228,432	$ 3,121,442
Fair value of plan assets	$ 2,471,553	$ 2,017,440

Net Periodic Pension Cost

Components of net periodic pension cost (in thousands):

	2021	2020
Service cost	$ 90,615	$ 84,278
Interest cost	92,681	99,862
Expected return on plan assets	(139,408)	(129,523)
Amortization of prior service cost	(6,636)	-
Recognized net actuarial loss	130,967	101,209
Settlement loss recognized	943	1,566
Net periodic pension cost	$ 169,162	$ 157,392

The components of net periodic pension cost other than the service cost component are included in other components of net periodic pension cost in the Consolidated Statements of Operations and Changes in Net Assets.

Other Changes in Plan Assets and Benefit Obligations Recognized in Net Assets without Donor Restrictions

	2021	2020
Net (gain) loss	$ (219,992)	$ 319,706
Amortization of net loss	(131,910)	(102,775)
Amortization of prior service cost	6,636	-
Change in funded state of defined benefit plans	(345,266)	216,931
Plan amendment liability	-	(59,659)
Total recognized in net assets without donor restrictions	$ (345,266)	$ 157,272
Total amounts recognized in net periodic pension cost and net assets without donor restrictions	$ (176,104)	$ 314,664

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

	2021	2020
Discount rate - service cost	3.20 %	3.88 %
Discount rate - benefit obligation	3.02 %	3.71 %
Expected return on plan assets	7.00 %	7.20 %
Rate of compensation increase - ultimate	2.50 %	2.50 %

The assumptions used in determining the benefit obligations for all plans, except the SMH and HCGH plans where noted, are as follows as of June 30:

	2021	2020
Discount rate	3.10 %	3.02 %
Rate of compensation increase - ultimate	3.00 %	2.50 %

The HCGH plan utilized an expected rate of return on assets of 3.25% for the year ended June 30, 2021, and the SMH and HCGH plans utilized an expected rate of return on assets of 3.25% for the year ended June 30, 2020 due to the nature of the plans being frozen and terminated.

The expected rate of return on plan assets assumption, excluding SMH and HCGH, 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	2021	2020
Cash and cash equivalents	3.69 %	6.71 %
Equities and equity funds	7.85	7.44
Fixed income funds	21.36	25.32
Investments measured at NAV as a practical expedient	66.59	50.93
Distributions after measurement date	0.51	2.45
Contributions after measurement date	0.00	7.15
	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, except the SMH and HCGH 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. During the year ended June 30, 2020, the SMH plan adjusted its investment allocation to cash and cash equivalents, and the HCGH plan to cash and cash equivalents and fixed income to reduce the risk of market volatility to prepare for their ultimate termination of the plans.

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, 2021 grouped by hierarchy level (in thousands):

Assets	**Fair Value**	**Level 1**	**Level 2**
Cash and cash equivalents (1)	$ 93,846	$ 93,846	$ -
Equities and equity funds (2)	199,785	199,785	-
Fixed income and restricted funds (3)	543,724	85,551	458,173
	837,355	$ 379,182	$ 458,173
Investments measured at NAV as a practical expedient	1,695,010		
Distributions after measurement date (4)	13,000		
Total plan assets	$ 2,545,365		

The following table presents the Plan assets carried at fair value as of June 30, 2020 grouped by hierarchy level (in thousands):

Assets	**Fair Value**	**Level 1**	**Level 2**
Cash and cash equivalents (1)	$ 136,032	$ 136,032	$ -
Equities and equity funds (2)	150,850	150,850	-
Fixed income and restricted funds (3)	513,305	360,315	152,990
	800,187	$ 647,197	$ 152,990
Investments measured at NAV as a practical expedient	1,032,628		
Distributions after measurement date (4)	49,714		
Contributions after measurement date (5)	144,999		
Total plan assets	$ 2,027,528		

(1) Cash and cash equivalents 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. The mutual funds are valued based on the closing price on the primary market and are rendered Level 1. For the fixed income instruments, fair value is based on quotes for similar securities; therefore, these investments are rendered Level

2. Equity index and fixed income futures contracts are utilized to manage equity price and interest rate risk. A futures contract is a contractual agreement to make or take delivery of a standardized quantity of a specified grade or type of commodity or financial instrument at a specified future date in accordance with terms specified by a regulated future exchange. Upon entering into a futures contract, JHHS is required to deposit either cash or securities in an amount equal to a certain percentage of nominal value of the contract ("initial margin"). This collateral is classified as restricted funds within the table above. Pursuant to the futures contract, JHHS agrees to receive from, or pay to, the broker an amount of cash equal to the daily fluctuation in the value of the futures contract. Such receipts or payments are known as "variation margin" which are settled daily. The value on the statement of net assets available is the related unsettled variation margin. As of June 30, 2021, JHHS had six open contracts in futures with a notional value of $259.3 million. As of June 30, 2020, JHHS had two open contracts in futures with a notional value of $106.0 million.

(4) Distributions after measurement date are comprised of redemptions of investments held at NAV.

(5) Contributions after measurement date represent subscriptions in investments held at NAV.

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, 2021 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Event driven hedge funds (1)	$ 3,358	Quarterly	65 days
Hedge fund of funds (2)	416,523	Quarterly	90 days
Commingled equity funds (3)	974,399	Daily to Quarterly	5 to 90 days
Commingled fixed income (4)	258,256	Daily to Quarterly	1 to 90 days
Private equity (5)	42,474	N/A	N/A
	$ 1,695,010		

The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2020 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (6)	$ 139,612	Monthly	5 days
Equity long/short hedge funds (7)	67,982	Quarterly	30 to 60 days
Event driven hedge funds (1)	4,233	Quarterly	60 to 65 days
Hedge fund of funds (2)	66,649	Quarterly	90 days
Relative value hedge funds (8)	28,706	Quarterly	95 days
Commingled equity funds (3)	305,245	Daily or monthly	1 to 25 days
Commingled fixed income (4)	420,201	Daily or monthly	1 to 90 days
	$ 1,032,628		

(1) 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.

(2) 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.

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

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

(5) Private equity: Investments in private equity are in the form of close-ended private funds and not available for redemption. The fund managers primarily invest in investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables or some other method. These private fund investments are valued at NAV. Distributions to investors are made only after the liquidation of the underlying investments. It is expected to take up to 10 years to fully distribute these assets. As of June 30, 2021, unfunded commitments totaled $99.2 million.

(6) 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.

(7) 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.

(8) 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.

Contributions and Estimated Future Benefit Payments

JHHS expects to contribute $133.5 million to its pension plans in the fiscal year ending June 30, 2022.

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, 2021 (in thousands):

2022	$	96,847
2023		103,100
2024		111,440
2025		119,230
2026		127,690
Next five years		746,076

13. 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 1.28% and 1.53% as of June 30, 2021 and 2020, respectively.

JHHS' insurance recoveries and liabilities are presented gross in the accompanying Consolidated Balance Sheets as of June 30, 2021 and 2020 as follows:

Caption on Consolidated Balance Sheet
(in thousands)

	2021	2020
Estimated malpractice recoveries	$ 69,902	$ 73,109
Estimated malpractice recoveries, net of current portion	61,740	53,377
Total assets	$ 131,642	$ 126,486
Current portion of estimated malpractice costs	$ 69,902	$ 73,109
Estimated malpractice costs, net of current portion	61,740	53,377
Total liabilities	$ 131,642	$ 126,486

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.

Professional and general liability insurance expense incurred by JHHS was $96.2 million and $126.1 million for the years ended June 30, 2021 and 2020, respectively. Reserves were $316.6 million and $280.9 million as of June 30, 2021 and 2020, respectively.

14. Related Party Transactions

During the years ended June 30, 2021 and 2020, 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:

(Expense) transactions (in thousands):

	2021	2020
Pharmacy management and patient discharge planning costs to JHHCG	$ (60,500)	$ (63,791)
Security and management of housekeeping and parking garage services provided by Broadway Services, Inc.	(19,228)	(18,403)
Utility, telecommunication and clinical application services provided by JHMI Utilities, LLC	(122,543)	(115,038)

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

	2021	2020
Note receivable - JHMI Utilities, LLC	$ 15,768	$ 15,768
Note receivable - JHI	-	3,693
Note receivable - Johns Hopkins Surgery Center Series ("JHSCS")	1,555	1,477
Note receivable - FSK Land Corporation	1,169	1,492
Due (to) from other affiliates, net	(2,264)	876
Due from (to) affiliates, current portion, net	$ 16,228	$ 23,306
Note receivable - JHMI Utilities, LLC	$ 34,912	$ 41,257
Note receivable - JHSCS	9,794	11,549
Note receivable - FSK Land Corporation	13,813	14,982
Due from (to) affiliates, net of current portion	$ 58,519	$ 67,788

Affiliate Notes Receivable
JHHS has made loans to certain noncontrolled affiliates that do not consolidate within JHHS. The loans to these affiliates do not eliminate in consolidation. The short-term portion of the notes receivable is included in due from affiliates, 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 has three affiliate notes receivable with JHMI Utilities, LLC. The first note receivable had a balance of $5.0 million as of June 30, 2021 and 2020. The note receivable is due in June 2027, accrues interest at a fixed rate of 6.0%, with interest payments paid monthly. The second note was entered into in June 2019 to fund redevelopment of the North Power Plant and had a balance of $7.4 million as of June 30, 2021 and 2020. The note receivable is due March 2042, accrues interest at a fixed rate of 5.35%, with interest payments paid quarterly and principal payments paid quarterly starting in June 2022. The third note was entered into in September 2020 also to fund redevelopment of the North Power Plant and had a balance of $8.8 million as of June 30, 2021. The note receivable is due March 2042, accrues interest at a fixed rate of 5.35%, with interest payments paid quarterly and principal payments paid quarterly starting in June 2022. JHHSC's note receivable had a balance of $50.7 million and $57.0 million as of June 30, 2021 and 2020, respectively. The JHHSC note receivable is due in May 2023, accrues interest at a fixed rate of 5.85%, with principal and interest payments paid monthly.

JHH had an affiliate note receivable with JHI which was paid in full in June 2021. As such, there is no outstanding balance as of June 30, 2021. The balance as of June 30, 2020 was $3.7 million. The note accrued interest in the initial period at a fixed rate of 5.4%, with principal payments paid quarterly and interest payments paid monthly.

JHHSC and HCGH have affiliate notes receivable with JHSCS. JHHSC has two affiliate notes receivable with JHSCS. The first note receivable has a balance of $0.5 million and $0.7 million as of June 20, 2021 and 2020, respectively. The note receivable is due in June 2023, accrues interest at a fixed rate of 6.5%, with interest and principal payments paid monthly. The second note receivable has a balance of $9.4 million and $10.6 million as of June 30, 2021 and 2020, respectively. The note receivable is due in June 2029, accrues interest at a fixed rate of 5.35%, with interest and principal payments paid monthly. HCGH's note receivable has a balance of $1.5 million and $1.7 million as of June 30, 2021 and 2020, respectively. The note receivable is due in September 2027, accrues interest at a fixed rate of 5.25%, with interest and principal payments paid monthly.

JHHSC has two affiliate notes receivable with FSK Land Corporation. The first note receivable has a balance of $14.9 million and $15.7 million as of June 30, 2021 and 2020, respectively. The note has three components due in September 2021, 2023 and 2035, respectively that accrue interest at fixed rates between 5.00% and 5.35% with principal and interest payments paid monthly. The second note receivable has a balance of $0.1 million and $0.7 million as of June 30, 2021 and 2020, respectively. The note is due in December 2026, accrues interest at a fixed rate of 4%, with principal and interest payments paid monthly.

Affiliate Leases
JHHS engages in leasing transactions with various noncontrolled, unconsolidated affiliates. In most cases, JHHS is the lessee; however, in some situations, JHHS is the lessor – either as the sub-lessor or as the lessor of its owned, real property. However, lessor activity is not material.

As a lessee, the terms of JHHS' leases with related parties range from 5 to 48 years and generally do not include early termination or renewal options. JHHS uses its collateralized incremental borrowing rate to derive its ROU asset and liability associated with its related party leases unless the rate implicit in the lease is known. Lease payments are paid on a monthly basis.

The following table summarizes JHHS' expense items for the year ended June 30 (in thousands):

	2021	2020
Expenses for operating leases with		
FSK Land Corporation	$ (4,317)	$ (4,303)
JHHC Surgery Center Development LLC	(1,481)	(1,438)
550 Broadway Limited Partnership	-	(812)
Broadway Services, Inc.	(91)	(99)
Expenses for financing leases with		
FSK Land Corporation	(1,466)	(1,643)

ROU asset and liability balances as of June 30 are as follows (in thousands):

	2021	2020
Operating lease right-of-use assets		
FSK Land Corporation	$ 2,617	$ 5,371
JHHC Surgery Center Development LLC	10,052	11,192
Broadway Services, Inc.	-	90
Finance lease right-of-use assets		
FSK Land Corporation	9,084	10,232
Operating lease liabilities		
FSK Land Corporation	(1,588)	(3,275)
JHHC Surgery Center Development LLC	(1,071)	(1,009)
Broadway Services, Inc.	-	(90)
Operating lease liabilities, net of current portion		
FSK Land Corporation	(1,013)	(2,007)
JHHC Surgery Center Development LLC	(9,231)	(10,300)
Finance lease liabilities		
FSK Land Corporation	(1,186)	(1,114)
Finance lease liabilities, net of current portion		
FSK Land Corporation	(8,167)	(9,289)

15. Contracts, Commitments and Contingencies

In the ordinary course of operations, JHHS is named as a defendant in various lawsuits, or events occur which could lead to litigation, claims, or assessments. Although the outcome of such matters cannot be predicted with certainty, management believes that insurance coverage is sufficient to cover current or potential claims, or that the final outcomes of such matters will not have a material adverse effect on the consolidated financial statements.

There are several lawsuits pending in which JHHS has been named as a defendant as described below.

On April 1, 2015, a complaint was filed against the University, its Bloomberg School of Public Health and its School of Medicine, JHHSC and JHH (collectively the "Johns Hopkins Defendants"), as well as another institution and a pharmaceutical company (collectively the "defendants"). The claims arise from human experiments conducted in Guatemala between 1946 and 1948 (the "Study") under the auspices of the United States Public Health Service, the Guatemalan government, and the Pan American Sanitary Bureau. The plaintiffs' third amended complaint alleges that physicians and scientists employed by defendants "approved, encouraged, and directed nonconsensual and nontherapeutic human experiments in Guatemala" in which research subjects were intentionally exposed to and infected with venereal diseases without informed consent, and that the individuals were not advised about the consequences of the experiments or given follow-up care, treatment, or education. The third amended complaint alleges claims under both the Guatemala civil code and the federal Alien Tort Statute (the "ATS"), and seeks compensatory damages in excess of $75,000 and punitive damages of $1 billion. The Johns Hopkins Defendants dispute both the factual allegations and legal claims. The Johns Hopkins Defendants did not initiate, pay for, direct, or conduct the Study. In 2010, the United States government accepted responsibility for the Study and apologized to all who were affected by it. A prior lawsuit against officials of the United States government for the same injuries alleged in the suit against the Johns Hopkins Defendants was dismissed by the U.S. District Court for the District of Columbia.

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

On January 3, 2019, the Honorable Theodore D. Chuang denied the motion, declining to extend the majority's reasoning in Jesner to domestic corporations. On April 23, 2019, however, Judge Chuang granted defendants' Motion to Certify Interlocutory Appeal, and on May 17, 2019, the Fourth Circuit granted defendants' petition for permission to appeal. Briefing was completed in October 2019. In August 2020, the Fourth Circuit issued an order placing the case in abeyance pending a decision by the United States Supreme Court in No. 19-416, Nestle USA, Inc. v. John Doe I. At this time, discovery closed and both plaintiffs and defendants filed motions for summary judgment.

On June 17, 2021, the United States Supreme Court issued its decision in Nestle clarifying the law with respect to the improper extraterritorial application of the ATS. Defendants promptly notified the District Court of the Nestle ruling and requested that the District Court lift its stay and enter summary judgment in favor of all defendants based on the reasoning of Nestle. Subsequently, the District Court entered an order lifting the stay and ordering the parties to submit new summary judgment briefs that address, among other things, the impact of the Nestle decision on plaintiffs' ATS claim. Defendants filed their Renewed Motion for Summary Judgment and their Opposition and Reply to Plaintiffs' Cross Motion for Summary Judgment; Plaintiffs' Consolidated Reply is due on August 27, 2021.

In light of the Supreme Court ruling in Nestle, and at the request of the JHU Defendants, the interlocutory appeal before the Fourth Circuit was dismissed on June 25, 2021.

The Johns Hopkins Defendants intend to continue 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 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 $409.7 million and $371.1 million for the years ended June 30, 2021 and 2020, respectively.

Effective June 30, 2021, JHHS entered into an agreement with the University irrevocably pledging to pay $66.0 million to JHUSOM for the restricted purpose of supporting JHUSOM's recruitment, employment, and start-up costs of new clinically-focused physician providers. Since no right of return and barriers exist with respect to this irrevocable promise to give, JHHS recorded the full $66.0 million in fiscal year 2021 within purchased services on the Consolidated Statements of Operations and Changes in Net Assets. JHHS recorded the related short-term liability of $7.1 million within accounts payable and accrued liabilities and the related long-term liability of $58.9 million within other long-term liabilities in the Consolidated Balance Sheets as of June 30, 2021. JHHS will make semi-annual installment payments of the funds to JHUSOM commencing on December 31, 2021 and continuing every six months thereafter, with the final payment to include any remaining unpaid balance of the irrevocable fund commitment. The final payment including any unused portion will be made by June 30, 2028.

In fiscal year 2020, JHHS made a one-time contribution of $50.0 million to JHUSOM to help enable it to carry out their joint mission in light of the financial challenges that JHUSOM experienced as a result of the COVID-19 pandemic. JHHS recorded the full $50.0 million within purchased services on the Consolidated Statements of Operations and Changes in Net Assets in fiscal year 2020. JHHS recorded the related short-term liability of $50.0 million within accounts payable and accrued liabilities on the Consolidated Balance Sheets as of June 30, 2020.

In fiscal year 2021, JHHS and the University entered into several agreements pertaining to the construction and use of a medical research building on JHH's campus. Under these agreements, JHHS will construct the building and lease space to the University. Planning, demolition, and minor construction has already begun and the building will open in phases between 2024 and 2026.

JHH

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 JHMI Utilities, LLC and shares equally in the governance of JHMI Utilities, LLC. 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, 2021 and 2020, the amount of the debt guaranteed by JHH was $123.1 million and $116.7 million, respectively. JHH accounts for this investment under the equity method of accounting.

JHH has pledged investments, having an aggregate market value of $35.3 million and $32.4 million as of June 30, 2021 and 2020, respectively, for JHHS compliance with regulations of the Workers Compensation Commission and the Department of Economic and Employment Development's Unemployment Insurance Fund.

16. Concentrations of Credit Risk

JHHS provides services primarily to residents in the State of Maryland, District of Columbia and Florida without collateral or other proof of ability to pay. Most patients are local residents who are insured partially or fully under third-party payor arrangements.

The following table depicts the mix of accounts receivable, net from patients and third-party payors as of June 30, 2021 and 2020:

	2021	2020
Medicare	12.8 %	13.6 %
Medicaid	9.9	12.8
Blue Cross and Blue Shield	19.1	14.9
Medicaid managed care organizations	17.0	18.9
Self pay	7.7	7.6
Other third-party payors	33.5	32.2
	100.0 %	100.0 %

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 HSCRC. JHHS' management has made all submissions required by the HSCRC and believes JHHS is in compliance with HSCRC requirements. The waiver has been approved through calendar year 2023 by the CMS.

Effective January 1, 2014, with retroactive application to revenues generated by services provided after June 30, 2013, the HSCRC and the CMS entered into a new demonstration model for the Maryland waiver. The new demonstration model moved from a Medicare per admission methodology to a per capita population health-based methodology. To facilitate the goals of the new demonstration model, the HSCRC and Maryland hospitals entered into Global Budget Revenue Agreements ("GBR"). The agreements set 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, 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. SHI is allowed to recognize incremental revenues at a 50% variable cost factor.

Under the HSCRC reimbursement methodology, amounts collected for services to patients under the Medicare and Medicaid programs are computed at approximately 92.3% of HSCRC approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

17. 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 year ended June 30, 2021 consisted of the following (in thousands):

	2021		
	Health Care Services	General and Administrative Services	Total Expenses
Operating expenses			
Salaries, wages and benefits	$ 1,843,847	$ 784,056	$ 2,627,903
Purchased services	2,546,950	560,692	3,107,642
Supplies and other	1,230,136	130,610	1,360,746
Interest	49,537	-	49,537
Depreciation and amortization	232,230	79,308	311,538
Total operating expenses	5,902,700	1,554,666	7,457,366
Nonoperating expenses			
Interest expense on swap agreements	25,113	-	25,113
Other components of net periodic pension cost	56,769	20,995	77,764
Other nonoperating expenses, including JHUSOM academic mission support	25,245	-	25,245
Total nonoperating expenses	107,127	20,995	128,122
Total expenses	$ 6,009,827	$ 1,575,661	$ 7,585,488

Natural expenses attributable to more than one functional expense category are allocated using administrative allocations from annual CMS cost reports.

Expenses related to providing these services for the year ended June 30, 2020 consisted of the following (in thousands):

	2020		
	Health Care Services	**General and Administrative Services**	**Total Expenses**
Operating expenses			
Salaries, wages and benefits	$ 1,909,001	$ 672,970	$ 2,581,971
Purchased services	2,382,554	546,112	2,928,666
Supplies and other	1,118,744	158,287	1,277,031
Interest	57,833	-	57,833
Depreciation and amortization	242,622	68,086	310,708
Total operating expenses	5,710,754	1,445,455	7,156,209
Nonoperating expenses			
Interest expense on swap agreements	19,670	-	19,670
Other components of net periodic pension cost	56,934	15,778	72,712
Other nonoperating expenses, including JHUSOM academic mission support	23,711	-	23,711
Total nonoperating expenses	100,315	15,778	116,093
Total expenses	$ 5,811,069	$ 1,461,233	$ 7,272,302

Natural expenses attributable to more than one functional expense category are allocated using administrative allocations from annual CMS cost reports.

18. Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at June 30, 2021 and 2020 (in thousands):

	2021	2020
Cash and cash equivalents	$ 983,833	$ 892,791
Short-term investments	208,528	95,505
Patient accounts receivable, net	679,820	575,383
Due from others	143,575	140,350
Due from affiliates	31,294	29,155
Investments (less investments in affiliates)	3,270,170	2,596,804
	$ 5,317,220	$ 4,329,988

General expenditures refer to ongoing operating expenditures required to fulfill JHHS' principal business purpose. JHHS has certain Board of Trustee-designated assets limited to use which are excluded from the quantitative information above; however, these assets can be released by the Board of Trustees and made available for general expenditure.

As part of JHHS' liquidity management plan, cash in excess of daily requirements is invested in short-term and long-term investments. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due. Investments classified as long-term assets can be converted to cash within one year, if needed.

19. 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 $914.8 million and $700.9 million as of June 30, 2021 and 2020, respectively. The Endowment Corporation's distributions from net assets to JHHS and its affiliates were $10.9 million and $12.8 million for the years ended June 30, 2021 and 2020, respectively, and were recorded as other revenue.

20. Subsequent Events

JHHS has performed an evaluation of subsequent events, including the event described below, through September 24, 2021, which is the date the consolidated financial statements were issued.

Effective July 1, 2021, JHHS entered into an agreement with JHUSOM under which JHHS and the University have each committed to provide financial support for the start-up of operations of JHUSOM's occupied research space in a building to be located on the JHH campus. JHHS has agreed to pay JHUSOM up to $70.0 million to be used solely and exclusively to support JHUSOM's research operations in the building during fiscal years 2025 through 2029 (or the first five years of building operation). JHHS will make fixed payments in accordance with an established funding schedule with the first payment being at the end of fiscal year 2025 (or the date in which the first project wing completion date occurs, whichever is later) and annually thereafter. Each payment will be contingent upon 1) the University making its share of the payment, 2) the occurrence of the first project wing completion date and 3) JHUSOM incurring expenses from the operation of the research space in excess of the applicable expense threshold in the annual funding schedule. The final payment will be made by June 30, 2029 or the end of the fiscal year following the fifth anniversary of the first project wing completion date.

Schedule of Expenditures of Florida State Financial Assistance

and

Notes to Schedule of Expenditures of Florida State Financial Assistance

The Johns Hopkins Health System Corporation and Affiliates
Schedule of Expenditures of Florida State Financial Assistance
Year Ended June 30, 2021

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
STATE OF FLORIDA:					
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF EDUCATION					
JOHNS HOPKINS ALL CHILDREN'S HOSPITAL PATIENT ACADEMICS	48.176	52R-90670-1Q001	$ 238,776	$ -	$ 238,776
DEPARTMENT OF CHILDREN & FAMILIES					
PASSED THROUGH CENTRAL FLORIDA BEHAVIORAL HEALTH NETWORK					
SUBSTANCE ABUSE & MENTAL - COMMUNITY SERVICES	60.153	RD 195-17	85,931	-	85,931
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF HEALTH					
CHILDREN'S SPECIAL HEALTHCARE - DEVELOPMENTAL EVALUATION	64.022	COQVY	48,500	-	48,500
PASSED THROUGH THE STATE OF FLORIDA DEPARTMENT OF HEALTH					
SPECIAL EDUCATION - GRANTS FOR INFANTS & FAMILIES WITH DISABILITIES	64.022	COQZM	3,459,188	-	3,459,188
DIRECT PROGRAM FROM THE STATE OF FLORIDA DEPARTMENT OF HEALTH					
TRAUMA CENTER FINANCIAL SUPPORT	64.075	TRA-01	3,730	-	3,730
NEWBORN SCREENING PROGRAM	64.076	COQAD	111,300		111,300
BANKHEAD-COLEY CANCER RESEARCH PROGRAM	64.078	20B01	-	178,806	178,806
			$ 3,947,425	**$ 178,806**	**$ 4,126,231**

1. Basis of Presentation

The accompanying schedule of expenditures of Florida state financial assistance (the "Schedule") includes the state grant transactions of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") under programs of the state of Florida for the year ended June 30, 2021. Because the Schedule presents only a selected portion of the operations of JHHS, it is not intended to and does not present the financial position, results of operations and changes in net assets, or cash flows of JHHS.

For purposes of the Schedule, Florida state awards include all awards in the form of grants, contracts, and similar agreements entered into directly between JHHS and the state of Florida. State Catalog of State Financial Assistance ("CSFA") and pass-through identification numbers are included when available.

2. Summary of Significant Accounting Policies

The Schedule reflects 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.

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:

We have audited, 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, the consolidated financial statements of The Johns Hopkins Health System Corporation and its affiliates ("JHHS"), which comprise the consolidated balance sheet as of June 30, 2021, 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 consolidated financial statements and have issued our report thereon dated September 24, 2021.

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") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

PricewaterhouseCoopers LLP

Baltimore, Maryland
September 24, 2021

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 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:

Report on Compliance for Each Major State Program

We have audited The Johns Hopkins Health System Corporation and its affiliates' ("JHHS") compliance with the types of compliance requirements described in 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 state programs, for the year ended June 30, 2021. JHHS' major Florida 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 Florida state statutes, regulations and the terms and conditions of its Florida state awards applicable to its Florida state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of JHHS' major Florida 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 Section 215.97, Florida Statutes, and Chapter 10.650, Rules of the Auditor General. Those standards 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 Florida 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 Florida state program. However, our audit does not provide a legal determination of JHHS' compliance.

Opinion on Each Major 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 Florida state programs for the year ended June 30, 2021.

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 Florida 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 Florida state program and to test and report on internal control over compliance in accordance with 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 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 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 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 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
December 6, 2021

Part III
Findings

The Johns Hopkins Health System Corporation and Affiliates
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

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

Florida 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 215.97, *Florida Statutes*; and Chapter 10.650, *Rules of the Auditor General*	None reported

Identification of major Florida State programs:

State CSFA Number	Name of State Program or Cluster
64.022	Special Education – Grants for Infants and Families with Disabilities (Early Steps)

Dollar threshold used to distinguish between Florida 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 – Florida 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*.

Section III – Florida State Award Findings and Questioned Costs

There were no findings or questioned costs from prior years requiring an update in this report.