

# **The Johns Hopkins Health System Corporation and Affiliates**

**Consolidated Financial Statements and  
Supplementary Information  
June 30, 2019 and 2018**

# The Johns Hopkins Health System Corporation and Affiliates

## Index

June 30, 2019 and 2018

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## Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of The Johns Hopkins Health System Corporation and Affiliates (“JHHS”), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, 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 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 the 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 financial position of The Johns Hopkins Health System Corporation and Affiliates as of June 30, 2019 and 2018, 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.

***Emphasis of Matter***

As discussed in Notes 1 and 2 to the consolidated financial statements, JHHS changed the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity and the manner in which it accounts for revenue from contracts with customers in 2019. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

Baltimore, Maryland  
September 26, 2019

**The Johns Hopkins Health System Corporation and Affiliates**  
**Consolidated Balance Sheets**  
**June 30, 2019 and 2018**

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 711,260	\$ 579,793
Short-term investments	90,148	57,384
Assets whose use is limited - used for current liabilities	13,531	14,343
Patient accounts receivable, net	567,416	583,952
Due from others	138,313	106,747
Due from affiliates, current portion	35,879	35,292
Inventories of supplies	125,031	122,486
Estimated malpractice recoveries, current portion	63,776	44,395
Prepaid expenses and other current assets	48,411	46,434
Total current assets	<u>1,793,765</u>	<u>1,590,826</u>
Assets whose use is limited		
By donors or grantors for		
Pledges receivable	30,544	30,826
Other	68,939	119,196
By board of trustees	578,484	570,316
Other	19,991	19,938
Total assets whose use is limited	<u>697,958</u>	<u>740,276</u>
Investments	<u>2,971,310</u>	<u>2,984,149</u>
Property, plant and equipment	5,525,137	5,230,722
Less: Allowance for depreciation and amortization	<u>(2,461,114)</u>	<u>(2,256,453)</u>
Total property, plant and equipment, net	3,064,023	2,974,269
Due from affiliates, net of current portion	83,443	97,280
Estimated malpractice recoveries, net of current portion	45,429	34,042
Swap counterparty deposit	56,477	33,851
Other assets	35,615	22,768
Total assets	<u>\$ 8,748,020</u>	<u>\$ 8,477,461</u>

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, 2019 and 2018**

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term debt and obligations under capital leases	\$ 69,435	\$ 54,025
Accounts payable and accrued liabilities	783,615	727,164
Medical claims reserve	126,812	118,184
Deferred revenue	126,883	140,826
Due to affiliates	14,202	10,125
Advances from third-party payors	122,298	114,096
Current portion of estimated malpractice costs	66,134	46,559
Total current liabilities	<u>1,309,379</u>	<u>1,210,979</u>
Long-term debt and obligations under capital leases, net of current portion	1,966,719	1,996,423
Estimated malpractice costs, net of current portion	148,210	128,253
Net pension liability	925,406	733,018
Other long-term liabilities	281,965	233,122
Total liabilities	<u>4,631,679</u>	<u>4,301,795</u>
Net assets		
Net assets without donor restrictions	3,948,092	4,009,562
Net assets with donor restrictions	168,249	166,104
Total net assets	<u>4,116,341</u>	<u>4,175,666</u>
Total liabilities and net assets	<u>\$ 8,748,020</u>	<u>\$ 8,477,461</u>

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, 2019 and 2018**

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Operating revenues and other support</b>		
Net patient service revenue	\$ 3,891,443	\$ 3,757,592
Insurance premium revenue	2,090,993	1,982,600
Other revenue	830,880	742,658
Net assets released from restrictions used for operations	13,555	15,080
Total operating revenues and other support	<u>6,826,871</u>	<u>6,497,930</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	2,479,938	2,362,279
Purchased services	2,770,436	2,604,489
Supplies and other	1,142,368	1,055,690
Interest	61,405	59,992
Depreciation and amortization	291,533	286,160
Total operating expenses	<u>6,745,680</u>	<u>6,368,610</u>
Income from operations	81,191	129,320
<b>Non-operating revenues and expenses</b>		
Interest expense on swap agreements	(16,228)	(20,511)
Change in fair value of interest rate swap agreements	(51,683)	48,207
Investment return, net	196,059	195,329
Other components of net periodic pension cost	(85,500)	(74,400)
Other non-operating expenses	(23,093)	(28,540)
Excess of revenues over expenses before noncontrolling interests	100,746	249,405
Noncontrolling interests	<u>(31)</u>	<u>7,867</u>
Excess of revenues over expenses	100,715	257,272
Contributions (to) from affiliates	(663)	24,711
Change in funded status of defined benefit plans	(189,892)	23,267
Net assets released from restrictions used for purchases of property, plant, and equipment	20,265	24,663
Noncontrolling interests	31	(7,867)
Other	8,074	3,971
(Decrease) increase in net assets without donor restrictions	<u>(61,470)</u>	<u>326,017</u>
<b>Changes in net assets with donor restrictions</b>		
Gifts, grants and bequests	35,965	24,893
Net assets released from restrictions used for purchases of property, plant, and equipment	(20,265)	(24,663)
Net assets released from restrictions used for operations	(13,555)	(15,080)
Other	-	(2,557)
Increase (decrease) in net assets with donor restrictions	<u>2,145</u>	<u>(17,407)</u>
(Decrease) increase in net assets	(59,325)	308,610
<b>Net assets</b>		
Beginning of year	<u>4,175,666</u>	<u>3,867,056</u>
End of year	<u>\$ 4,116,341</u>	<u>\$ 4,175,666</u>

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, 2019 and 2018**

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Change in net assets	\$ (59,325)	\$ 308,610
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	291,533	284,958
Net realized and changes in unrealized gains on investments	(123,147)	(134,767)
Change in fair value of interest rate swap agreements	51,683	(48,207)
Change in funded status of defined benefit plans	189,892	(23,267)
Restricted contributions and investment income received	(23,377)	(17,240)
Return on equity investments	(12,049)	(5,542)
Contributions attributable to noncontrolling interests	663	(24,711)
Other operating activities	6,191	125
Change in assets and liabilities		
Patient accounts receivable	16,598	(44,399)
Inventories of supplies, prepaid expenses and other current assets	(36,058)	479
Due from affiliates, net	7,578	(6,132)
Pledges receivable	339	4,324
Other assets	(11,664)	17,833
Accounts payable, accrued liabilities and accrued vacation	69,439	62,176
Medical claims reserve	8,628	(1,447)
Deferred revenue	(13,943)	11,467
Advances from third-party payors	8,202	(16,390)
Accrued pension benefit costs	(3,485)	2,507
Estimated malpractice costs	8,764	(3,372)
Other long-term liabilities	(3,810)	(1,911)
Net cash and cash equivalents provided by operating activities	<u>372,652</u>	<u>365,094</u>
<b>Investing activities</b>		
Purchases of property, plant and equipment	(363,610)	(348,742)
Investment in equity investments	1,615	(5,553)
Purchases of investment securities	(2,331,534)	(1,537,617)
Sales of investment securities	2,489,166	1,586,016
Payments received on affiliate notes	21,494	15,593
Advances on affiliate notes	(11,797)	(16,737)
Other investing activities	(22,626)	(219)
Net cash and cash equivalents used in investing activities	<u>(217,292)</u>	<u>(307,259)</u>
<b>Financing activities</b>		
Restricted contributions and investment income received	23,377	17,240
Proceeds from long-term borrowings	7,500	355,646
Repayment of long-term debt and obligations under capital lease	(54,107)	(442,824)
Contributions attributable to noncontrolling interests	(663)	24,711
Other financing activities	-	854
Net cash and cash equivalents used in financing activities	<u>(23,893)</u>	<u>(44,373)</u>
Change in cash and cash equivalents	131,467	13,462
<b>Cash and cash equivalents</b>		
Beginning of year	<u>579,793</u>	<u>566,331</u>
End of year	<u>\$ 711,260</u>	<u>\$ 579,793</u>
<b>Supplemental disclosure of cash flow information</b>		
Purchases of property and equipment in accounts payable	\$ 22,251	\$ 35,240
Assets acquired under capital leases	31,155	7,144
Interest paid	86,012	82,545

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



# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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#### 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, and the HCGH OB/GYN Associates Series, LLC (“HCOB”), a taxable community based obstetrics and gynecology practice. JHHSC is also the sole shareholder of Howard County Health Services, Inc. (“HCSI”), a taxable entity organized to hold interests in various health care enterprises, Johns Hopkins Medical Management Corp. (“JHMMC”), a taxable entity that provides temporary nursing and clerical staffing, promotes ambulatory care arrangements in support of JHHS, and houses commercial supply chain business units, and Johns Hopkins Employer Health Programs, Inc. (“EHP”), a taxable third-party administrator for employee health benefit plans self-funded by the constituent employee sponsors. JHHSC owns a 99.8% interest in Ophthalmology Associates, LLC (“OA”), a taxable professional services organization which operates an ophthalmology center at Green Spring Station. JHHSC and the Johns Hopkins University (the “University”) each own a 50% membership interest in Johns Hopkins HealthCare LLC (“JHHC”), a taxable managed care entity supporting JHHS and the University in cooperative strategies by which patient care, education, and research may be advanced. JHHSC consolidates JHHC. These entities are collectively known as the “Affiliates.”

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

*Use of estimates.* The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include the estimated net realizable value of patient receivables, valuation of alternative investments, the actuarially determined pension and other postretirement benefits, medical claims reserve, and malpractice and self-insurance reserves.

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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

*Principles of consolidation.* The consolidated financial statements include the accounts of JHHSC and all Affiliates after elimination of all significant intercompany accounts and transactions.

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

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

*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 balances primarily include receivables related to the hospital discharge pharmacies.

*Due from affiliates.* Due from affiliates balances primarily include loans and other receivable balances from certain affiliates that do not consolidate within JHHS.

*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") or restricted by the donor 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.

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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Assets whose use is limited include assets held by trustees under debt agreements, assets restricted by the board of trustees for future capital improvements, pledges receivable, beneficial interest remainder trusts, and net assets set aside pursuant to their 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 and are recorded at fair value in the Consolidated Balance Sheets. Debt and equity securities traded on a national securities and international exchange are valued as of the last reported sales price on the last business day of the fiscal year; investments traded on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

Investments include 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.

Beginning in fiscal year 2019, management has elected to report investment income (interest and dividends) within investment return, net in the non-operating section of the Consolidated Statements of Operations and Changes in Net Assets. This presentation provides a measure of profitability from core business operations exclusive of earnings on investments. The fiscal year 2018 investment income has been reclassified to investment return, net to conform to the fiscal year 2019 presentation.

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 non-operating section of the Consolidated Statements of Operations and Changes in Net Assets included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Investments classified as non-current on the Consolidated Balance Sheets include investments that are not expected to be converted to cash within one year; 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 in long-term 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. Investments in companies in which JHHS does not have control, nor has the ability to exercise significant influence over operating and financial policies, are accounted for using the cost method of accounting. Investments are originally recorded at cost, with dividends received being recorded as other revenue.

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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

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.

*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 impairment charges were recorded in 2019 or 2018.

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

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

*Accrued vacation.* JHHS records a liability 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.

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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*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 gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within excess of revenues over expenses on the Consolidated Statements of Operations and Changes in Net Assets.

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

*Noncontrolling interests.* JHHC is owned by JHHC 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, JHHC 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.

*Net assets.* Net assets without donor restrictions include undesignated amounts as well as amounts designated by the board for a specific purpose. The amount of board designated investments included within net assets without restriction was \$578.5 million and \$570.3 million as of June 30 2019 and 2018, respectively. 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

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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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 as 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 individuals 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.

In June 2018, the FASB issued ASU 2018-08, "Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. JHHS adopted this new accounting standard in fiscal year 2019. There was no significant impact to the consolidated financial statements.

JHHS and its affiliates receive contributions in the form of conditional government grants. The 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, which is outside the scope of ASC 606. The grants are considered conditional due to the need to first spend the awarded funds on qualifying expenses and a right of return exists for unexpended funds. The grants are reimbursed after the expenses have been incurred. As of June 30, 2019, JHHS and its affiliates had \$9.5 million of conditional contributions for which the conditions have not been met.

*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 contributions which by donor restriction were to be used for the purposes of acquiring such assets).

*Non-operating revenues and expenses.* For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses. For the years ended June 30, 2019 and 2018, non-operating revenues and expenses are composed primarily of interest paid and changes in market value on interest rate swap agreements, investment return, net, other non-service cost components of net periodic pension cost, and non-operating services.

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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

JHHC is classified as a partnership for Federal and State income tax purposes and accordingly, there is no provision for income taxes in the accompanying consolidated financial statements. Taxable income or loss passes through to and is reported by the members in their respective tax returns. Taxable subsidiaries of Affiliates account for income taxes in accordance with Financial Accounting Standards Board (“FASB”) guidance on accounting for income taxes. Deferred income taxes are recognized for the tax consequences in future years for differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. Affiliate subsidiaries otherwise exempt from Federal and State taxation are nonetheless subject to taxation at corporate tax rates at both the Federal and State levels on their unrelated business income. Total taxes paid to Federal and State tax authorities during the years ended June 30, 2019 and 2018 amounted to \$33.6 million and \$33.4 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, 2019 and 2018.

#### *New accounting standards.*

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-01 addresses accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Entities that are not considered public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The amendments in ASU 2016-01 are effective for years beginning after December 15, 2018, and early adoption is permitted. JHHS early adopted the provisions of this standard for the fiscal year ended June 30, 2018 that no longer requires disclosure of the fair value of financial instruments carried at amortized cost.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. ASU 2016-02 will require organizations that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting— will remain largely unchanged from current Generally Accepted Accounting Principles (Topic 840 in the Accounting Standards Codification). In July 2018, the FASB issued ASU 2018-11, “Leases, Targeted Improvements”. ASU 2018-11 provides entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. In addition, ASU 2018-11 provides entities with a practical expedient allowing lessors to not separate non-lease components from the associated lease components when certain criteria are met. ASU 2016-02 and ASU 2018-11 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. JHHS is required to adopt these lease accounting standards effective July 1, 2019 and will utilize the modified retrospective transition method with no adjustments to comparative periods presented. Additionally, JHHS will elect the package of practical expedients within ASU 2016-02 that allows an entity to not reassess as of July 1, 2019, its prior conclusions on whether an existing

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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contract contains a lease, lease classification for existing leases, and whether costs incurred for existing leases qualify as initial direct costs. While JHHS continues to assess certain effects of adoption, it has concluded that the most significant effects relate to the recognition of lease liabilities and right-of-use assets for operating leases on the Consolidated Balance Sheets and additional disclosures about JHHS' leases.

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

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

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, iii) disclosure of the valuation processes for Level 3 fair value measurements, and iv) the requirement for nonpublic entities to disclose the changes in unrealized gains and losses included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. In addition, ASU 2018-13 modifies the disclosure requirements to: i) allow nonpublic companies to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities as an alternative to reconciling the opening balances to the closing balances of recurring Level 3 fair value measurements, and ii) require disclosure for investments in certain entities that calculated net asset value of the timing of liquidation of an investee's assets and the date redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. The update is effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2019 with early adoption permitted. An entity is permitted to early adopt any removed or modified disclosures upon the issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date.

*Reclassifications.* Certain amounts from the prior year, including investment income as discussed above and insurance premium revenue as discussed in Note 2, have been reclassified in order to conform to the current year presentation.

## 2. Revenue Recognition

Beginning in May 2014, the FASB issued several Accounting Standards Updates which established Topic 606, *Revenue from Contracts with Customers*. The standard supersedes existing revenue recognition requirements and seeks to eliminate most industry-specific guidance under current Generally Accepted Accounting Principles. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.



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On July 1, 2018, JHHS adopted the new accounting standard using the full retrospective transition method. Adoption of the standard impacted JHHS' reported results as follows (in thousands):

	<b>Year Ended June 30, 2018</b>			
	<b>As Reported</b>	<b>Adoption Impact</b>	<b>Reclassifications</b>	<b>As Adjusted</b>
<b>Consolidated Statements of Operations and Changes in Net Assets</b>				
Net patient services revenue	\$ 3,843,581	\$ (102,127)	\$ 16,138	\$ 3,757,592
Insurance premium revenue	1,936,614	-	45,986	1,982,600
Total net patient services revenue (as reported)	5,780,195	(102,127)	62,124	5,740,192
Provision for bad debts	(102,127)	102,127	-	-
Other revenue	804,782	-	(62,124)	742,658
Net assets released from restrictions used for operations	15,080	-	-	15,080
Total operating revenues	<u>\$ 6,497,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,497,930</u>
<b>Consolidated Statements of Cash Flows</b>				
Provision for bad debts	\$ 102,127	\$ (102,127)	\$ -	\$ -
Change in patient accounts receivable	(146,526)	102,127	-	(44,399)

Amounts in the table above reflect reclassification of investment income to investment return, net in the non-operating section of the Consolidated Statements of Operations and Changes in Net Assets as discussed in Note 1. Adoption of the standard had no impact on JHHS' 2018 opening net assets. The new standard requires new disclosures about the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers. The applicable disclosures are included in this footnote.

**Net Patient Service Revenue**

Patient care 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 our hospitals receiving inpatient acute care services or patients receiving services in our 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.

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## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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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 significant for the years ended June 30, 2019 and 2018.

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 15 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. Effective July 1, 2017, the State of Florida ("State") Agency for Health Care Administration ("AHCA") implemented a new outpatient payment method utilizing Enhanced Ambulatory Patient Groups ("EAPGs") for Florida Medicaid. EAPGs are an outpatient visit-based patient classification available for all outpatient services and settings. Hospital rates will be set and adjusted on a prospective basis without requiring cost report settlements.

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

# The Johns Hopkins Health System Corporation and Affiliates

## Notes to Consolidated Financial Statements

### For the Years Ended June 30, 2019 and 2018

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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, 2019, SMH received final audits for Medicare cost report years 2015 and 2016. As of June 30, 2019, SMH has Medicare cost report years 2010, 2011, 2013 and 2014 open.

JHACH's Medicaid interim rates are based on the Medicaid cost report which has been audited by the fiscal intermediary for the cost report years through 2015. The cost reports for 2016, 2017 and 2018 are in the process of being audited by the fiscal intermediary as of June 30, 2019. Final audited rates for 2009 through 2016 have been issued by Medicaid as of June 30, 2019. Estimated impacts of the anticipated changes in interim rates after audit of the cost reports are recorded at year end. Substantial time may elapse between receipt of a final audited cost report and the actual processing of the audited rates by the State AHCA.

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 \$62.0 million and \$59.0 million for the years ended June 30, 2019 and 2018, 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.

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

	2019		2018	
Medicare	\$ 1,224,123	31.5%	\$ 1,189,872	31.7%
Medicaid/Medicaid MCO	375,131	9.6%	401,135	10.7%
Blue Cross	834,018	21.4%	773,293	20.6%
HMO	789,720	20.3%	742,749	19.8%
Commercial	384,928	9.9%	431,414	11.5%
Other payors	203,476	5.2%	145,341	3.9%
Self pay	80,047	2.1%	73,788	1.8%
Net patient service revenue	\$ 3,891,443	100.0%	\$ 3,757,592	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's 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, 2019 and 2018, insurance premium revenue recognized was \$2.091 billion and \$1.983 billion, respectively. The related expenses associated with the insurance premium revenue was \$2.084B and \$1.952B for the years ended June 30, 2019 and 2018, 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 \$1.483 billion and \$1.463 billion for the years ended June 30, 2019 and 2018, respectively. The current contract extends through December 31, 2019.

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 \$427.2 million and \$412.4 million for the years ended June 30, 2019 and 2018, respectively. The current sole source commercial contract was awarded for the period commencing October 1, 2013 through September 30, 2023, with a Base Year and nine one-year Option Periods to be exercised at the Government's discretion. The Base Year was exercised and the sixth Option Period will begin on October 1, 2019.

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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 \$181.7 million and \$110.8 million for the years ended June 30, 2019 and 2018, respectively. The current contract extends through December 31, 2019.

**Other Revenue**

Other revenues consist principally of discharge pharmacy revenues, 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 point in time as 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 non-consolidating 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.

	2019		2018	
Discharge pharmacy revenues	\$ 381,607	45.9%	\$ 346,500	46.7%
Grants and contribution revenue	58,496	7.0%	51,600	6.9%
Compensated services	66,250	8.0%	65,172	8.8%
Administration/management fees	59,293	7.1%	53,729	7.2%
Lab revenue	33,951	4.1%	35,408	4.8%
Other	231,283	27.9%	190,249	25.6%
Other Revenue	\$ 830,880	100.0%	\$ 742,658	100.0%

**3. Pledges Receivable**

As of June 30, 2019 and 2018, the value of pledges receivable before discounts was \$33.3 million and \$33.4 million, respectively. Pledges receivable have been discounted at rates ranging from 0.11% to 5.50% and consist of the following (in thousands):

As of June 30, 2019	1 Year	2 –5 Years	5 Years or Greater	Totals
Departmental campaigns	\$ 4,858	\$ 4,436	\$ 1,735	\$ 11,029
Future campus development	12,732	6,044	739	19,515
	\$ 17,590	\$ 10,480	\$ 2,474	\$ 30,544

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As of June 30, 2018	1 Year	2 –5 Years	5 Years or Greater	Totals
Departmental campaigns	\$ 3,999	\$ 7,511	\$ 15	\$ 11,525
Future campus development	<u>3,795</u>	<u>5,889</u>	<u>9,617</u>	<u>19,301</u>
	<u>\$ 7,794</u>	<u>\$ 13,400</u>	<u>\$ 9,632</u>	<u>\$ 30,826</u>

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.

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The following table presents the financial instruments carried at fair value as of June 30, 2019 grouped by hierarchy level:

	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Assets</b>			
Cash and cash equivalents (1)	\$ 726,941	\$ 726,941	\$ -
Commercial paper (1)	20,772	-	20,772
Certificates of deposit (1)	1,164	-	1,164
U.S. Treasuries (2)	306,294	-	306,294
Corporate bonds (2)	409,201	-	409,201
Asset backed securities (2)	329,752	-	329,752
Equities and equity funds (3)	1,265,460	1,265,460	-
Fixed income funds (4)	408,556	408,556	-
Totals	<u>\$ 3,468,140</u>	<u>\$ 2,400,957</u>	<u>\$ 1,067,183</u>
<b>Liabilities</b>			
Interest rate swap agreements (5)	<u>\$ 223,562</u>	<u>\$ -</u>	<u>\$ 223,562</u>

The following table presents the financial instruments carried at fair value as of June 30, 2018 grouped by hierarchy level:

	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
<b>Assets</b>			
Cash and cash equivalents (1)	\$ 627,880	\$ 627,880	\$ -
Commercial paper (1)	13,475	-	13,475
Certificates of deposit (1)	6,893	-	6,893
U.S. Treasuries (2)	344,462	-	344,462
Corporate bonds (2)	438,581	-	438,581
Asset backed securities (2)	405,073	-	405,073
Equities and equity funds (3)	1,286,312	1,286,312	-
Fixed income funds (4)	220,886	220,886	-
Totals	<u>\$ 3,343,562</u>	<u>\$ 2,135,078</u>	<u>\$ 1,208,484</u>
<b>Liabilities</b>			
Interest rate swap agreements (5)	<u>\$ 171,879</u>	<u>\$ -</u>	<u>\$ 171,879</u>

- (1) Cash equivalents, commercial paper, money market funds, and overnight investments 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, money market funds, and overnight investments are rendered Level 1 due to their frequent pricing and ease of converting to cash. Computed prices and frequent evaluation versus fair value render commercial paper and the certificates of deposit Level 2.

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- (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 9 “Derivative Financial Instruments,” are valued using a swap valuation model that utilizes an income approach using observable market inputs including long-term interest rates, LIBOR swap rates, and credit default swap rates.

During 2019 and 2018, there were no significant transfers between Level 1 and 2.

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

JHHS holds investments that are not traded on national exchanges or over-the counter markets. 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, 2019 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	\$ 170,423	Monthly	5 to 14 days
Equity long/short hedge funds (2)	70,032	Monthly or quarterly	5 to 60 days
Structured credit hedge funds (3)	21,000	Quarterly	90 days
Commingled equity funds (4)	253,535	Daily or monthly	1 to 10 days
Commingled fixed income (5)	108,827	Daily or monthly	1 to 15 days
Event driven hedge funds (6)	52,448	Monthly or quarterly	60 to 90 days
Total	<u>\$ 676,265</u>		



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The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2018 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	\$ 187,078	Monthly	5 to 14 days
Equity long/short hedge funds (2)	121,059	Monthly or quarterly	5 to 60 days
Commingled equity funds (4)	213,987	Daily or monthly	1 to 10 days
Commingled fixed income (5)	87,857	Daily or monthly	1 to 5 days
Event driven hedge funds (6)	31,471	Quarterly	60 days
Hedge fund of funds (7)	64,515	Quarterly	45 to 70 days
Total	<u>\$ 705,967</u>		

- (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 non-agency 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.
- (7) 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.

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**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):

	<b>2019 Carrying Amount</b>	<b>2018 Carrying Amount</b>
Cash and cash equivalents measured at fair value	\$ 726,941	\$ 627,880
Cash and cash equivalents included in AWUIL	(15,681)	(48,087)
Total cash and cash equivalents	<u>\$ 711,260</u>	<u>\$ 579,793</u>
U.S. Treasuries	240,730	273,061
Commercial paper	20,772	13,475
Certificates of deposit	1,164	6,893
Corporate bonds	300,213	337,385
Asset backed securities	245,379	331,844
Fixed income funds	367,219	193,474
Equities and equity funds	922,771	907,621
Short and long-term investments measured at fair value	<u>2,098,248</u>	<u>2,063,753</u>
Investments in affiliates	286,945	275,484
Investments measured at NAV as a practical expedient	676,265	702,296
Total short and long-term investments	<u>\$ 3,061,458</u>	<u>\$ 3,041,533</u>

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

	<b>2019 Carrying Amount</b>	<b>2018 Carrying Amount</b>
U.S. Treasuries	\$ 65,564	\$ 71,401
Corporate bonds	108,988	101,196
Asset backed securities	84,373	73,229
Fixed income funds	41,337	27,412
Equities and equity funds	342,689	378,691
Assets whose use is limited measured at fair value	<u>642,951</u>	<u>651,929</u>
Cash in AWUIL reported as cash and cash equivalents on leveling table	15,681	48,087
Investments measured at NAV as a practical expedient	-	3,671
Pledges receivable	30,544	30,826
Other	22,313	20,106
Total assets whose use is limited	<u>\$ 711,489</u>	<u>\$ 754,619</u>

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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 \$183.2 million, \$595.9 million, and \$1.4 billion, respectively, as of June 30, 2019. The amounts held within the liquid, intermediate and other investment pools were \$249.6 million, \$697.9 million, and \$1.3 billion, respectively, as of June 30, 2018.

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

	<b>2019</b>	<b>2018</b>
Realized gains on investments	\$ 158,371	\$ 45,977
Changes in unrealized gains on investments	<u>(35,224)</u>	<u>88,790</u>
Total	<u>\$ 123,147</u>	<u>\$ 134,767</u>

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

<b>Investment</b>	<b>Cost / Equity</b>	<b>%</b>	<b>2019</b>	<b>2018</b>
Johns Hopkins Medicine International, LLC ("JHI")	Equity	50.00 %	\$ 66,553	\$ 63,631
Johns Hopkins Home Care Group, Inc. ("JHHCG")	Equity	50.00 %	14,172	12,320
FSK Land Corporation	Equity	50.00 %	14,210	12,509
Mt. Washington Pediatric Hospital and Foundation	Equity	50.00 %	52,855	47,781
JHMI Utilities, LLC	Equity	50.00 %	20,634	19,166
West County, LLC	Equity	50.00 %	6,573	6,945
JH Surgery Center	Equity	50.00 %	20,692	16,450
MCIC Bermuda	Cost	10.00 %	67,019	65,263
Other			<u>24,237</u>	<u>31,419</u>
			<u>\$ 286,945</u>	<u>\$ 275,484</u>

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, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Assets	\$ 625,870	\$ 618,761
Liabilities	334,030	343,828
Revenues	305,061	308,217
Expenses	292,637	284,995

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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):

	2019	2018
<b>Net assets without donor restrictions attributable to noncontrolling interests at beginning of period</b>	\$ 74,018	\$ 54,435
Income (losses) attributable to noncontrolling interests	31	(7,867)
Contributions attributable to noncontrolling interests	-	24,711
Other	-	2,739
<b>Net assets without donor restrictions attributable to noncontrolling interests at end of period</b>	<b>\$ 74,049</b>	<b>\$ 74,018</b>

**6. Property, Plant and Equipment**

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

	2019		2018	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land and land improvements	\$ 197,321	\$ 25,084	\$ 175,677	\$ 23,753
Buildings and improvements	2,581,443	1,085,026	2,481,198	1,009,216
Fixed and moveable equipment	2,236,421	1,225,624	2,083,862	1,110,624
Capitalized software	153,321	125,380	138,499	112,845
Construction in progress	356,631	-	351,486	15
	<b>\$ 5,525,137</b>	<b>\$ 2,461,114</b>	<b>\$ 5,230,722</b>	<b>\$ 2,256,453</b>

Accruals for purchases of property, plant and equipment as of June 30, 2019 and 2018 amounted to \$22.3 million and \$35.2 million, respectively, and are included in accounts payable and accrued liabilities in the Consolidated Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2019 and 2018 amounted to \$291.5 million and \$286.2 million, respectively.

During the year ended June 30, 2019 and 2018, JHHS retired long-lived assets determined to have no future value. During 2019, the original cost and corresponding accumulated depreciation of these long-lived assets was \$97.6 million and \$89.7 million, respectively. During 2018, the original cost and corresponding accumulated depreciation of these long-lived assets was \$113.4 million and \$110.3 million, respectively. No proceeds from retirement were received in 2019 or 2018.

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**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):

	<b>2019</b>	<b>2018</b>
<b>Balance, July 1</b>	<u>\$ 157,627</u>	<u>\$ 161,207</u>
Incurred related to		
Current year	1,645,851	1,433,884
Prior year	<u>(21,227)</u>	<u>(30,048)</u>
Total incurred	<u>1,624,624</u>	<u>1,403,836</u>
Paid related to		
Current year	1,480,422	1,276,257
Prior year	<u>136,400</u>	<u>131,159</u>
Total paid	<u>1,616,822</u>	<u>1,407,416</u>
<b>Balance, June 30</b>	<u><u>\$ 165,429</u></u>	<u><u>\$ 157,627</u></u>

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.

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#### 8. Debt

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

	Interest Rate(s)	Final Maturity	Renewal Date	Issued Amount	2019	2018
Tax Exempt Maryland Health and Higher Education Facilities Authority ("MHHEFA") Bonds and Notes						
1985 Series A and B – Pooled Loan Program Issue (JHHSC)	2.25%	2030	7/19/2023	\$ -	\$ 2,028	\$ 2,268
1990 Series - Revenue Bonds (JHH)	7.30% to 7.35%	2019	N/A	90,169	9,370	16,867
2004 – Commercial Paper Revenue Notes Series B (JHBMC)	1.99%	2025	6/28/2022	101,990	47,335	52,880
2011 Series A - Revenue Bonds (JHH)	2.00% to 5.00%	2026	N/A	74,615	50,560	57,575
2012 Series B - Revenue Bonds (JHH)	2.00% to 5.00%	2033	N/A	97,560	78,170	81,665
2013 Series C – Revenue Bonds (JHHSC)	3.00% to 5.00%	2043	N/A	238,000	229,801	231,415
2015 Series A - Revenue Bonds (JHHSC)	2.00% to 5.00%	2040	N/A	134,735	126,551	128,735
2016 Series A - Revenue Bonds (JHHSC)	2.03%	2023	5/31/2023	48,565	38,175	44,170
2016 Series B - Revenue Bonds (JHHSC)	2.05%	2042	5/31/2023	48,245	48,245	48,245
2017 Series B - Revenue Bonds (JHHSC)	2.54%	2038	10/1/2024	165,825	163,990	164,920
2012E/2017C Series - Revenue Bonds (JHHSC)	2.41%	2057	11/1/2022	100,000	100,000	100,000
2018 Series A - Revenue Bonds (JHHSC)	2.26%	2048	6/1/2023	48,245	48,245	48,245
2018 Series B - Revenue Bonds (JHHSC)	2.27%	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)	2.40%	2034	6/1/2024	102,400	89,925	91,900
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	500,000	500,000	500,000
2017 Series A - Taxable Revenue Bonds (JHHSC)	3.19%	2027	1/25/2027	165,200	163,473	164,223
2018 Series - Taxable Revenue Bonds (JHHSC)	2.96%	2029	6/1/2029	50,320	47,750	50,320
Other debt						
Note Payable (JHHC)	3.41%	2022	12/18/2022	3,006	2,158	2,728
					1,934,026	1,974,406
Unamortized premiums and discounts, net					16,184	18,823
Unamortized debt issuance costs					(6,323)	(6,790)
Obligations under capital leases					92,267	64,009
					2,036,154	2,050,448
Current maturities of long-term debt and capital leases					(69,435)	(54,025)
Total long-term debt and obligations under capital leases, net of current portion					\$ 1,966,719	\$ 1,996,423

**Financing expenses.** Financing expenses incurred in connection with the issuance of debt are presented in the Consolidated Balance Sheet as a direct deduction from the carrying value of the associated debt. The expenses are being amortized over the terms of the related debt issues using the effective interest method. The total amount expensed for the period ended June 30, 2019 and 2018 was \$0.6 million and \$1.3 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. All of the debt of JHH, JHBMC, HCGH, SHI, SHHS, SMH, JHACH and JHHSC is parity debt, and as such is jointly and severally liable through a claim on and a security interest in all of JHH's, JHBMC's, HCGH's, SHI's, SHHS', SMH's, JHACH's, and JHHSC's receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, HCGH, SHI, SHHS, SMH, JHACH and JHHSC are required to achieve a defined minimum debt service coverage ratio each year. The outstanding JHHS Obligated Group parity debt was \$1.9 billion and \$2.0 billion as of June 30, 2019 and 2018, respectively.

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In April 2019, JHHSC closed on the modification the Series 2012E/2017C bond to adjust the margin rate factor language in the debt agreement as a result of lower corporate tax rates in 2019. In May 2019, JHHSC closed on the modification the Series 2017B bond to adjust the margin rate factor language in the debt agreement as a result of lower corporate tax rates in 2019. In May 2019, JHACH closed on the modification the Series 2012A bond to extend the credit facility's mandatory tender date from June 1, 2022 to June 1, 2024 and to adjust the margin rate factor language in the debt agreement as a result of lower corporate tax rates in 2019. No significant gain or loss was recorded from any of these modifications.

#### **2018 Series Taxable Revenue Bonds - JHHS**

In May 2018, JHHSC closed the Series 2018 taxable revenue bonds issuance of \$50.3 million to refund its JHHS Series 2013B tax-exempt bonds. The Series 2018 taxable bonds mature in June 2029 and pay principal annually and interest monthly based on a spread over a floating base rate.

#### **2018B Series Tax-Exempt Revenue Bonds - JHHS**

In May 2018, JHHSC closed the Series 2018B tax-exempt revenue bonds issuance of \$88.3 million to refund its JHHS Series 2013A tax-exempt bonds. The Series 2018B bonds are subject to mandatory purchase in June 2023. The bonds pay interest monthly based on a spread over a floating base rate.

#### **2018A Series Tax-Exempt Revenue Bonds - JHHS**

In April 2018, JHHSC closed the Series 2018A tax-exempt revenue bonds issuance of \$48.2 million to refund its JHHS Series 2015B tax-exempt bonds. The Series 2018A bonds are subject to mandatory purchase in June 2023. The bonds pay interest monthly based on a spread over a floating base rate.

#### **2012E/2017C Series Tax-Exempt Revenue Bonds – JHHS**

In November 2017, JHHSC closed on a transaction that amended certain terms relating to the Series 2012E Bonds pursuant to which the 2012E Bonds were re-designated as the 2012E/2017C Bond. The principal amount outstanding of the 2012E/2017C Bond shall not at any one time exceed the principal amount of \$100.0 million. The Series 2012E/2017C Bond is subject to mandatory purchase in November 2022. The bonds pay interest monthly based on a spread over a floating base rate.

#### **2017B Series Tax-Exempt Revenue Bonds - JHHS**

In October 2017, JHHSC closed the Series 2017B tax-exempt bond issuance of \$165.8 million to refund its JHH 2012C and JHH 2012D series revenue bonds. The Series 2017B bond is subject to mandatory purchase in October 2024. The bonds pay principal annually and interest monthly based on a spread over a floating base rate.

#### **Letters of Credit and Intermediate Financing Vehicles**

In connection with the 2004 MHHEFA Commercial Paper Revenue Notes, JHBMC has a \$47.3 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, 2019 or 2018.

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

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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, excluding capital leases, during the next five fiscal years and thereafter are as follows as of June 30, 2019 (in thousands):

2020	\$	62,268
2021		45,441
2022		49,072
2023		151,578
2024		46,109
Thereafter		<u>1,579,558</u>
	<u>\$</u>	<u>1,934,026</u>

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):

	<b>2019</b>	<b>2018</b>
Net interest costs		
Capitalized	\$ 9,635	\$ 8,054
Expensed	77,633	80,503
Allocated to others	-	55
	<u>\$ 87,268</u>	<u>\$ 88,612</u>
Interest costs paid	<u>\$ 86,012</u>	<u>\$ 82,545</u>

**Capital Leases**

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

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



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

JHACH has a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and building, located in St. Petersburg, FL, which is known as the Bayfront Medical Plaza. The lease commenced in December 2017 and will continue through November 2027. The base rent escalates 3% per year, in accordance with the lease agreement. JHACH has recorded this as a capital lease.

JHACH has a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and building, located in St. Petersburg, FL, which is known as 5959 Central Avenue. The lease commenced in November 2018 and will continue through October 2028. The base rent escalates 3% per year, in accordance with the lease agreement. JHACH has recorded this as a capital lease.

JHHC has a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and building, located in Hanover, MD, which is known as 7231 Parkway Drive. The lease commenced in January 2019 and will continue through April 2029. The base rent escalates 2.25% per year, in accordance with the lease agreement. JHHC has recorded this as a capital lease.

The total leased property of \$105.8 million and \$74.6 million is reflected in property, plant and equipment as of June 30, 2019 and 2018, respectively. Accumulated depreciation on the leased assets was \$33.9 million and \$28.0 million as of June 30, 2019 and 2018, respectively. Depreciation expense on these leased assets is included within depreciation expense in the Consolidated Statements of Operations and Changes in Net Assets.

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The future minimum lease payments required under JHHS capital leases are as follows as of June 30, 2019 (in thousands):

	<b>Capital Lease Payments</b>
2020	\$ 11,331
2021	11,320
2022	11,394
2023	11,599
2024	11,876
2025 and thereafter	<u>58,989</u>
Minimum lease payments	116,509
Interest on capital lease obligations	<u>(24,242)</u>
Net minimum payments	92,267
Current portion of capital lease obligation	<u>(7,167)</u>
Capital lease obligation, less current	<u>\$ 85,100</u>

**9. Derivative Financial Instruments**

JHHS' primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was \$1.012 billion and \$1.024 billion as of June 30, 2019 and 2018, respectively.

Each swap agreement has certain collateral thresholds whereby, on a daily basis, if the fair value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by JHHS with the swap counterparty for the difference between the threshold amount and the fair value. As of June 30, 2019 and 2018, the amount of required collateral was \$56.5 million and \$33.9 million, respectively.

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

Swap Type	Expiration Date	Counterparty	JHHS Pays	JHHS Receives	Notional Amount at June 30	
					2019	2018
Fixed	2022	J.P. Morgan	3.3290 %	67% of 1-Month LIBOR	\$ 45,675	\$ 46,670
Fixed	2025	Bank of America	3.3265 %	67% of 1-Month LIBOR	47,335	52,880
Fixed	2021	J.P. Morgan	3.9190 %	68% of 1-Month LIBOR	11,450	15,725
Fixed	2034	Royal Bank of Canada	3.6235 %	62.2% of 1-Month LIBOR + 0.27%	14,205	14,280
Fixed	2034	Citibank, N.A.	3.6235 %	62.2% of 1-Month LIBOR + 0.27%	23,695	23,820
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	81,550	81,550
Fixed	2038	Merrill Lynch Capital Services	3.8091 %	67% of 1-Month LIBOR	81,450	81,950
Fixed	2025	Goldman Sachs Capital Markets, L.P.	3.6910 %	67% of 1-Month LIBOR	7,070	7,070
Fixed	2047	Citibank, N.A.	3.8505 %	61.8% of 1-Month LIBOR + 0.25%	60,000	60,000
					<u>\$ 1,012,430</u>	<u>\$ 1,023,945</u>

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

	<b>Derivatives Reported as Liabilities</b>			
	<b>2019</b>		<b>2018</b>	
	<b>Balance Sheet Caption</b>	<b>Fair Value</b>	<b>Balance Sheet Caption</b>	<b>Fair Value</b>
Interest rate swaps	Other long-term liabilities	<u>\$ 223,562</u>	Other long-term liabilities	<u>\$ 171,879</u>

Derivatives as of June 30 (in thousands):

Classification of Derivative Gain (Loss) in Statement of Operations	<b>Amount of Gain (Loss) Recognized in Change in Net assets without donor restrictions</b>	
	<b>2019</b>	<b>2018</b>
	Interest rate swaps Non-operating (expense) gain	<u>\$ (51,683)</u>

**10. Net Assets with Donor Restrictions**

In August 2016, the FASB issued ASU 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities". The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantors, creditors and other users. JHHS adopted this new accounting standard in fiscal year 2019. The primary changes affecting JHHS include: presentation of two classes of net assets versus the previously required three; enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, and liquidity and availability; and disclosure of expenses by both their natural and functional classification in a matrix format. Also refer to Note 16 and Note 17.

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

	2019	2018
Subject to expenditure for a specified purpose:		
Purchase of property, plant, and equipment	\$ 22,807	\$ 24,882
Health care services	53,406	48,178
Health education and counseling	7,219	6,325
Indigent care	4,485	3,068
Restricted pledge fund	18,796	20,433
	<u>106,713</u>	<u>102,886</u>
Funds, cash and securities held into perpetuity:		
Health care services	46,984	48,720
Health education and counseling	14,552	14,498
	<u>61,536</u>	<u>63,218</u>
	<u>\$ 168,249</u>	<u>\$ 166,104</u>

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.

**11. 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. The FASB’s guidance on 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. Changes in net assets without donor restrictions during the year ended June 30, 2018 reflect an adjustment of \$65.8 million related to a special benefit liability. During the year ended June 30, 2019, the HCGH Board of Trustees approved the termination of the HCGH plan. The plan termination is expected to take up to eighteen months from the time the determination letter is filed with the Internal Revenue Service to settle all liabilities. During the year ended June 30, 2018, the SMH board of trustees approved the termination of the SMH plan. The plan termination is expected to take up to eighteen to twenty-four months to settle all liabilities.

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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, 2019 and 2018 consisted of cash and cash equivalents, equities and equity funds, fixed income funds, and alternative investments. All assets are managed by external investment managers, consistent with the Plans' investment policy.

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

<b>Change in benefit obligation</b>	<b>2019</b>	<b>2018</b>
<b>Benefit obligation as of beginning of year</b>	\$ 2,401,508	\$ 2,289,041
Service cost	79,783	78,509
Interest cost	103,199	95,246
Special benefit liability	-	65,829
Actuarial loss (gain)	306,484	(54,815)
Benefits paid	(73,444)	(72,302)
<b>Benefit obligation as of June 30</b>	<b>\$ 2,817,530</b>	<b>\$ 2,401,508</b>

<b>Change in plan assets</b>	<b>2019</b>	<b>2018</b>
<b>Fair value of plan assets as of beginning of year</b>	\$ 1,669,415	\$ 1,536,263
Actual return on plan assets	134,581	53,505
Employer contribution	168,280	151,949
Benefits paid	(73,444)	(72,302)
<b>Fair value of plan assets as of June 30</b>	<b>\$ 1,898,832</b>	<b>\$ 1,669,415</b>

<b>Funded Status as of June 30</b>	<b>2019</b>	<b>2018</b>
Fair value of plan assets	\$ 1,898,832	\$ 1,669,415
Projected benefit obligation	(2,817,530)	(2,401,508)
Unfunded status	<b>\$ (918,698)</b>	<b>\$ (732,093)</b>

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

	<b>2019</b>	<b>2018</b>
Net pension asset (SMH - included in other assets)	\$ 6,708	\$ 925
Net pension liability	(925,406)	(733,018)
Net amount recognized	<b>\$ (918,698)</b>	<b>\$ (732,093)</b>

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

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

	<b>2019</b>	<b>2018</b>
Actuarial net loss	\$ 929,136	\$ 739,136
Prior service cost	-	108
	<u>\$ 929,136</u>	<u>\$ 739,244</u>
Accumulated benefit obligation	<u>\$ 2,499,558</u>	<u>\$ 2,125,116</u>

**Net Periodic Pension Cost**

Components of net periodic pension cost (in thousands):

	<b>2019</b>	<b>2018</b>
Service cost	\$ 79,783	\$ 78,509
Interest cost	103,199	95,246
Expected return on plan assets	(108,120)	(105,434)
Amortization of prior service cost	108	126
Recognized net actuarial loss	89,339	83,545
Settlement loss recognized	684	2,539
Net periodic pension cost	<u>\$ 164,993</u>	<u>\$ 154,531</u>

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

	<b>2019</b>	<b>2018</b>
Net loss (gain)	\$ 280,023	\$ (2,886)
Amortization of net loss	(90,023)	(86,084)
Amortization of prior service cost	(108)	(126)
	<u>189,892</u>	<u>(89,096)</u>
Special benefit liability	-	65,829
Total recognized in net assets without donor restrictions	<u>\$ 189,892</u>	<u>\$ (23,267)</u>
Total loss recognized in net periodic benefit cost and net assets without donor restrictions	<u>\$ 354,885</u>	<u>\$ 131,264</u>

The estimated net loss and prior service cost that will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year are \$89.1 million and \$108.0 thousand, respectively.

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

	<b>2019</b>	<b>2018</b>
Discount rate - service cost	4.53%	4.32 %
Discount rate - benefit obligation	4.41%	4.11 %
Expected return on plan assets	7.25%	7.50 %
Rate of compensation increase - ultimate	2.50%	2.50 %

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

	<b>2019</b>	<b>2018</b>
Discount rate	3.71%	4.41 %
Expected return on plan assets	7.25%	7.50 %
Rate of compensation increase - ultimate	2.50%	2.50 %

The SMH plan utilized an expected rate of return on assets of 3.25% and 5.50% for the years ended June 30, 2019 and 2018, respectively, due to the nature of the plan being frozen and management's future expectations surrounding this plan.

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

**Plan Assets**

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

<b>Asset Class</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	2.71%	1.28%
Equities and equity funds	8.08%	8.82%
Fixed income funds	31.66%	32.14%
Investments measured at NAV as a practical expedient	57.55%	57.76%
Total	<u>100.00%</u>	<u>100.00%</u>

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 plan, 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, 2019, the SMH plan adjusted its investment allocation to mostly fixed income to reduce the risk of market volatility as it moves towards terminating the plan.

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**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, 2019 grouped by hierarchy level (in thousands):

<b>Assets</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
Cash equivalents (1)	\$ 51,472	\$ 51,472	\$ -
Equities and equity funds (2)	153,403	153,403	-
Fixed income funds (3)	601,134	371,168	229,966
	806,009	<u>\$ 576,043</u>	<u>\$ 229,966</u>
Investments measured at NAV as a practical expedient	<u>1,092,823</u>		
Total plan assets	<u>\$ 1,898,832</u>		

The following table presents the plan assets carried at fair value as of June 30, 2018 grouped by hierarchy level (in thousands):

<b>Assets</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
Cash equivalents (1)	\$ 21,329	\$ 21,329	\$ -
Equities and equity funds (2)	147,222	147,222	-
Fixed income funds (3)	536,474	435,501	100,973
	705,025	<u>\$ 604,052</u>	<u>\$ 100,973</u>
Investments measured at NAV as a practical expedient	<u>964,390</u>		
Total plan assets	<u>\$ 1,669,415</u>		

- (1) Cash and cash equivalents and money market funds include investments with original maturities of three months or less, and are rendered Level 1 due to their frequent pricing and ease of converting to cash.
- (2) Equities include individual equities and investments in mutual funds. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered Level 1.



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

There are no unfunded commitments related to the Plans' investments measured at NAV as a practical expedient. The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2019 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	\$ 181,227	Monthly	5 days
Equity long/short hedge funds (2)	68,196	Quarterly	30 to 60 days
Event driven hedge funds (3)	79,035	Quarterly	60 to 65 days
Relative value hedge funds (4)	33,561	Quarterly	95 days
Commingled equity funds (5)	336,600	Daily or monthly	1 to 15 days
Commingled fixed income (6)	394,204	Daily or monthly	1 to 30 days
Total	<u>\$ 1,092,823</u>		

The following table displays information by strategy for investments measured at NAV as a practical expedient as of June 30, 2018 (in thousands):

	Fair Value	Redemption Frequency	Notice Period
Absolute return hedge funds (1)	\$ 270,855	Monthly	5 to 30 days
Equity long/short hedge funds (2)	98,176	Monthly or quarterly	15 to 60 days
Event driven hedge funds (3)	77,198	Quarterly	60 to 65 days
Relative value hedge funds (4)	32,673	Quarterly	95 days
Commingled equity funds (5)	221,826	Daily or monthly	3 to 15 days
Commingled fixed income (6)	263,662	Daily or monthly	10 to 30 days
Total	<u>\$ 964,390</u>		

- (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.

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- (3) Event-Driven hedge funds: Investment Managers who maintain positions in companies currently or prospectively involved in corporate transactions of a wide variety including but not limited to mergers, restructurings, financial distress, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments.
- (4) Relative Value hedge funds: Investment Managers with an investment thesis predicated on realization of a valuation discrepancy in the relationship between multiple securities. Managers employ a variety of fundamental and quantitative techniques to establish investment theses, and security types can range broadly across equity, fixed income, derivative or other security types.
- (5) Commingled equity funds: Long-only equity strategies that invest exclusively in publicly traded companies, though the funds are not traded on a public exchange.
- (6) Commingled fixed income: Fixed income strategies that invest in publicly-issued debt instruments, though the funds are not traded on a public exchange.

#### **Contributions and Estimated Future Benefit Payments**

JHHS expects to contribute \$179.9 million to its pension plans in the fiscal year ending June 30, 2020.

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, 2019 (in thousands):

2020	\$	186,266
2021		96,103
2022		93,956
2023		102,334
2024		109,876
Next five years		657,733

The fiscal 2020 expected benefit payments include \$104.6 million and \$1.9 million due to the expected settlement of all participant pension liabilities pursuant to SMH's and HCGH's plan terminations, respectively.

## **12. Professional and General Liability Insurance**

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

JHH and the University each have a 10% ownership interest in the RRG and the captive insurance company, which is included in investments on the Consolidated Balance Sheets. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions range between \$1.0 million and \$5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to

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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 2.18% and 1.60% as of June 30, 2019 and 2018, respectively.

JHHS applies the provisions of ASU 2010-24, "Presentation of Insurance Claims and Related Insurance Recoveries", which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. JHHS' insurance recoveries and liabilities in the accompanying Consolidated Balance Sheets as of June 30, 2019 and 2018 are as follows:

**Caption on Consolidated Balance Sheet**

(in thousands)

	<b>2019</b>	<b>2018</b>
Estimated malpractice recoveries, current portion	\$ 63,776	\$ 44,395
Estimated malpractice recoveries, net of current	<u>45,429</u>	<u>34,042</u>
Total assets	<u>\$ 109,205</u>	<u>\$ 78,437</u>
Current portion of estimated malpractice costs	\$ 63,776	\$ 44,395
Estimated malpractice costs, net of current portion	<u>45,429</u>	<u>34,042</u>
Total liabilities	<u>\$ 109,205</u>	<u>\$ 78,437</u>

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 \$70.0 million and \$55.4 million for the years ended June 30, 2019 and 2018, respectively. Reserves were \$214.3 million and \$174.8 million as of June 30, 2019 and 2018, respectively.

**13. Related Party Transactions**

During the years ended June 30, 2019 and 2018, 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:

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(Expense) transactions (in thousands):

	2019	2018
Pharmacy management and patient discharge planning costs to JHHCG	\$ (57,018)	\$ (35,121)
Security and management of housekeeping and parking garage services provided by Broadway Services, Inc.	(19,931)	(22,117)
Utility, telecommunication and clinical application services provided by JHMI Utilities, LLC	(111,438)	(107,907)

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

	2019	2018
Note receivable - JHMI Utilities, LLC	\$ 15,768	\$ 15,834
Note receivable - JHI	3,498	3,317
Note receivable - FSK Land Corporation	1,529	1,454
Due from other affiliates, net	882	4,562
Due from affiliates, current portion, net	<u>\$ 21,677</u>	<u>\$ 25,167</u>
Note receivable - JHMI Utilities, LLC	\$ 49,661	\$ 65,429
Note receivable - JHI	3,696	7,197
Note receivable - FSK Land Corporation	16,456	17,986
Due from other affiliates	13,630	6,668
Due from affiliates, net of current portion	<u>\$ 83,443</u>	<u>\$ 97,280</u>

**Affiliate Notes Receivable**

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

JHH and JHHSC have affiliate notes receivable with JHMI Utilities, LLC. JHH's note receivable has a balance of \$5.0 million as of June 30, 2019 and 2018. The JHH note receivable is due in June 2027, accrues interest at a fixed rate of 6.0%, with interest payments paid monthly. JHHSC's note receivable has a balance of \$60.4 million and \$76.3 million as of June 30, 2019 and 2018, 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 has an affiliate note receivable with JHI. JHH's note receivable has a balance of \$7.2 million and \$10.5 million as of June 30, 2019 and 2018, respectively. The note is due in June 2021, accrues interest in the initial period at a fixed rate of 5.4%, with principal payments paid quarterly and interest payments paid monthly.

JHHSC has two affiliate notes receivable with FSK Land Corporation. The first note receivable has a balance of \$16.5 million and \$17.8 million as of June 30, 2019 and 2018, respectively. The note has three components due in September 2021, 2023 and 2035, respectively that accrue interest at

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## Notes to Consolidated Financial Statements

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fixed rates between 5.00% and 5.35%, with principal and interest payments paid monthly. The second note receivable has a balance of \$1.5 million and \$1.6 million as of June 30, 2019 and 2018, respectively. The note is due in December 2026, accrues interest at a fixed rate of 4%, with principal and interest payments paid monthly.

#### 14. Contracts, Commitments and Contingencies

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

In one case, on April 1, 2015, a complaint was filed against the University, its Bloomberg School of Public Health and its School of Medicine, JHHSC and JHH (collectively the "Johns Hopkins Defendants"), as well as another institution and a pharmaceutical company (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 Guatemala government, and the Pan American Sanitary Bureau. The plaintiffs' third amended complaint alleges that physicians and scientists employed by defendants "approved, encouraged, and directed nonconsensual and nontherapeutic human experiments in Guatemala" in which research subjects were intentionally exposed to and infected with venereal diseases without informed consent, and that the individuals were not 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 have also advised us that they did not initiate, pay for, direct, or conduct the Study. In 2010, the United States government accepted responsibility for the Study and apologized to all who were affected by it. A prior lawsuit against officials of the United States government for the same injuries alleged in the suit against the Johns Hopkins Defendants was dismissed by the U.S. District Court for the District of Columbia.

On August 30, 2016, the Court issued a memorandum decision dismissing all of plaintiffs' Guatemala law claims, but denying defendants' motion to dismiss the third amended complaint with respect to the ATS claims. On May 16, 2018, defendants filed a motion for judgment on the pleadings based upon the Supreme Court's decision in *Jesner v. Arab Bank, PLC*, 138 S. Ct. 1386 (2018), which holds that the ATS does not authorize federal courts to create federal common law causes of action against foreign corporations, as doing so would usurp Congress's role and violate the separation of powers. Defendants argue that although the Supreme Court's formal holding applied to foreign corporations—the only type of corporation that was a party to the case—the Supreme Court's reasoning should apply to domestic corporations as well.

On January 3, 2019, the Honorable Theodore D. Chuang denied the motion, declining to extend the majority's reasoning in *Jesner* to domestic corporations. On April 23, 2019, however, Judge Chuang granted defendants' Motion to Certify Interlocutory Appeal, and on May 17, 2019, the Fourth Circuit granted defendants' petition for permission to appeal. Defendants' opening brief was given on July 29, 2019. In the meantime, expert discovery has closed and the bulk of the factual discovery has been completed. Summary judgment motions are due on October 11, 2019. In addition, on April 9, 2019, defendants filed a motion for sanctions and request for discovery regarding discovery abuses by plaintiffs' counsel. Briefing concluded on June 28, 2019. The Court has not yet issued a ruling on this motion. The Johns Hopkins Defendants intend to continue to vigorously defend this lawsuit.

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## Notes to Consolidated Financial Statements

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#### JHHS

JHHS has agreements with the University, under which the University provides medical administration and educational services, conducts medical research programs, provides patient care medical services, provides resident physicians who furnish services at JHHS hospitals, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine (“JHUSOM”). Compensation for providing medical administration and educational services is paid to the University by JHHS; funding for services in conducting medical research is paid from grant funds and by JHHS; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by the University; and compensation for other support services is paid to the University by JHHS. The aggregate amount of purchased services incurred by JHHS under these agreements was \$353.5 million and \$339.4 million for the years ended June 30, 2019 and 2018, respectively.

#### Operating Leases

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year (in thousands).

2020	\$	35,738
2021		31,466
2022		26,321
2023		22,198
2024		17,304

Rental expense for all operating leases for the years ended June 30, 2019 and 2018 amounted to \$57.9 million and \$53.9 million, respectively.

#### The Johns Hopkins Hospital

In 2005, JHH and the University created a Limited Liability Company (JHMI Utilities, LLC) to provide utility and telecommunication services for their East Baltimore Campus. Each member owns 50% of the LLC and shares equally in the governance of the LLC. The LLC also assumed the liability for JHH’s 1985 Pooled Loan obligation of \$8.5 million. The cost of acquiring and upgrading the existing utility facilities, the construction of a new power plant and an upgrade of the telecommunication system have been financed through the issuance of tax exempt bonds by MHHEFA and the proceeds of the Pooled Loan program sponsored by MHHEFA. JHH and the University have guaranteed the total debt issued by MHHEFA. As of June 30, 2019, the amount of the debt guarantee by JHH was \$107.1 million. JHH accounts for this investment under the equity method of accounting.

JHH has pledged investments, having an aggregate market value of \$32.4 million and \$28.9 million as of June 30, 2019 and 2018, for JHHS compliance with regulations of the Workers Compensation Commission and the Department of Economic and Employment Development’s Unemployment Insurance Fund. These investments are included in assets whose use is limited by board of trustees in the Consolidated Balance Sheets.

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**15. 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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Medicare	16.1%	16.5%
Medicaid	10.1%	10.6%
Blue Cross and Blue Shield	13.3%	12.5%
Medicaid managed care organizations	17.1%	13.7%
Self pay	9.3%	10.7%
Other third-party payors	34.1%	36.0%
Total	<u>100.0%</u>	<u>100.0%</u>

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. Phase II of the agreement was approved in July of 2018 and extended the waiver through December 31, 2023.

Effective January 1, 2014, with retroactive application to revenues generated by services provided after June 30, 2013, the HSCRC and the Center for Medicare and Medicaid Services 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.

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**For the Years Ended June 30, 2019 and 2018**

**16. 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, 2019 consisted of the following (in thousands):

	<b>2019</b>		
	<b>Health care services</b>	<b>General and administrative services</b>	<b>Total Expenses</b>
<b>Operating expenses:</b>			
Salaries, wages and benefits	\$ 1,845,050	\$ 634,888	\$ 2,479,938
Purchased services	2,128,121	642,315	2,770,436
Supplies and other	1,078,580	63,788	1,142,368
Interest	61,405	-	61,405
Depreciation and amortization	230,013	61,520	291,533
<b>Total operating expenses</b>	<b>5,343,169</b>	<b>1,402,511</b>	<b>6,745,680</b>
<b>Non-operating expenses:</b>			
Interest expense on swap agreements	16,228	-	16,228
Other components of net periodic pension cost	69,293	16,207	85,500
Other non-operating expenses, including JHUSOM academic mission support	23,093	-	23,093
<b>Total non-operating expenses</b>	<b>108,614</b>	<b>16,207</b>	<b>124,821</b>
<b>Total expenses</b>	<b>\$ 5,451,783</b>	<b>\$ 1,418,718</b>	<b>\$ 6,870,501</b>

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, 2018 consisted of the following (in thousands):

	<b>2018</b>	
	<b>Operating</b>	<b>Non-operating</b>
Health care services	\$ 5,062,180	\$ 108,128
General and administrative services	1,306,430	15,323
<b>Total operating expenses</b>	<b>\$ 6,368,610</b>	<b>\$ 123,451</b>



**The Johns Hopkins Health System Corporation and Affiliates**  
**Notes to Consolidated Financial Statements**  
**For the Years Ended June 30, 2019 and 2018**

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**17. Liquidity and Availability**

The table below represents financial assets available for general expenditures within one year at June 30, 2019 (in thousands):

	<b>2019</b>
Cash and cash equivalents	\$ 711,260
Short-term investments	90,148
Patient accounts receivable, net	567,416
Due from others, current portion	138,313
Due from affiliates, current portion	35,879
Investments	<u>2,684,365</u>
	<u>\$ 4,227,381</u>

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

As part of JHHS's 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.

**18. 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 \$711.5 million and \$706.3 million as of June 30, 2019 and 2018, respectively. The Endowment Corporation's distributions from net assets to JHHS and its affiliates were \$13.1 million and \$12.6 million for the years ended June 30, 2019 and 2018, respectively, and were recorded as other revenue.

**19. Subsequent Events**

JHHS has performed an evaluation of subsequent events through September 26, 2019, which is the date the financial statements were issued.

## **Supplementary Information**



## Report of Independent Auditors

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

We have audited the consolidated financial statements of The Johns Hopkins Health System Corporation and Affiliates as of and for the year ended June 30, 2019 and 2018 and our report thereon appears on pages 1 and 2 of this document. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets and cash flows of the individual companies.

*PricewaterhouseCoopers LLP*

September 26, 2019

# The Johns Hopkins Health System Corporation and Affiliates

## Supplementary Consolidating Balance Sheets

### June 30, 2019

(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Other Consolidated Entities	Suburban Hospital, Inc. Foundation	Sibley Memorial Hospital	Sibley Memorial Hospital Foundation	Sibley Other Affiliates	Johns Hopkins All Children's Hospital, Inc.	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	Eliminations	Johns Hopkins Health System Obligated Group Subtotal	Johns Hopkins Healthcare LLC and Subsidiaries	Johns Hopkins HealthCare Imaging	Howard Hospital Foundation	Johns Hopkins All Children's Foundation, Inc.	Other	Eliminations	Consolidated Johns Hopkins Health System Corporation and Affiliates
<b>Assets</b>																				
<b>Current assets</b>																				
Cash and cash equivalents	\$ 81,367	\$ 25,332	\$ 8,087	\$ 9,867	\$ -	\$ 79,466	\$ 58,405	\$ -	\$ 4,291	\$ 188,174	\$ 159	\$ -	\$ 455,148	\$ 189,849	\$ 10,169	\$ 4,057	\$ 5,090	\$ 46,947	\$ -	\$ 711,260
Short-term investments	-	150	50	407	-	22,881	59	-	100	66,155	200	-	90,002	-	-	-	146	-	-	90,148
Assets whose use is limited - used for curr liab	13,035	-	-	496	-	-	-	-	-	-	-	-	13,531	-	-	-	-	-	-	13,531
Patient accounts receivables, net	283,760	70,887	30,385	39,984	-	44,184	-	-	67,606	-	166	-	536,972	35,147	-	-	-	28,820	(33,523)	567,416
Due from others, current portion	56,081	8,561	540	3,787	-	5,329	-	-	3,779	6,222	329	-	84,608	43,653	3,377	20	64	6,591	-	138,313
Due from affiliates, current portion	17,089	84	561	927	2	-	-	-	3,373	97,479	123	(75,753)	44,485	24,433	5,532	-	-	37,008	(75,579)	35,879
Inventories of supplies	72,510	10,955	5,149	11,532	-	8,941	-	-	10,048	5,582	202	-	124,919	-	-	-	-	112	-	125,031
Estimated malpractice recoveries, current portion	37,027	3,906	1,659	1,357	-	2,883	-	-	9,231	-	-	-	56,063	1,360	-	-	-	6,353	-	63,776
Prepaid expenses and other current assets	12,728	1,767	1,805	3,985	261	4,353	64	9	4,590	2,725	392	-	32,679	13,023	320	20	210	2,159	-	48,411
<b>Total current assets</b>	<b>573,597</b>	<b>121,642</b>	<b>48,236</b>	<b>72,322</b>	<b>263</b>	<b>168,037</b>	<b>58,528</b>	<b>9</b>	<b>103,618</b>	<b>366,337</b>	<b>1,571</b>	<b>(75,753)</b>	<b>1,438,407</b>	<b>307,465</b>	<b>19,398</b>	<b>4,097</b>	<b>5,510</b>	<b>127,990</b>	<b>(109,102)</b>	<b>1,793,765</b>
<b>Assets whose use is limited</b>																				
<b>By donors or grantors for</b>																				
Pledges receivable	740	243	-	-	6,230	-	13,566	-	-	-	-	-	20,779	-	-	3,199	6,566	-	-	30,544
Other	6,986	7,697	-	-	28,204	4,213	464	-	25	-	-	-	47,589	-	-	3,594	17,756	-	-	68,939
By Board of Trustees	71,361	65,166	5,849	-	74,558	-	-	342,693	16,199	-	-	-	575,816	-	-	-	2,668	-	-	578,484
Other	2,364	925	19,510	-	109	-	-	-	17,755	16,038	222	-	56,923	200	-	-	-	-	(37,132)	19,991
<b>Total assets whose use is limited</b>	<b>81,451</b>	<b>74,021</b>	<b>25,359</b>	<b>-</b>	<b>34,543</b>	<b>78,771</b>	<b>14,030</b>	<b>342,693</b>	<b>33,979</b>	<b>16,038</b>	<b>222</b>	<b>-</b>	<b>701,107</b>	<b>200</b>	<b>-</b>	<b>6,793</b>	<b>26,990</b>	<b>-</b>	<b>(37,132)</b>	<b>697,958</b>
<b>Investments</b>	<b>1,178,869</b>	<b>37,952</b>	<b>181,219</b>	<b>265,232</b>	<b>-</b>	<b>421,738</b>	<b>18,941</b>	<b>-</b>	<b>452,056</b>	<b>209,691</b>	<b>22,598</b>	<b>-</b>	<b>2,788,296</b>	<b>164,583</b>	<b>-</b>	<b>8,447</b>	<b>68,086</b>	<b>33,045</b>	<b>(91,147)</b>	<b>2,971,310</b>
<b>Property, plant and equipment</b>	<b>2,342,703</b>	<b>528,811</b>	<b>304,434</b>	<b>440,742</b>	<b>33</b>	<b>716,082</b>	<b>107</b>	<b>91</b>	<b>681,403</b>	<b>162,344</b>	<b>80,137</b>	<b>-</b>	<b>5,256,887</b>	<b>90,981</b>	<b>30,181</b>	<b>519</b>	<b>23,314</b>	<b>123,255</b>	<b>-</b>	<b>5,525,137</b>
Less: Allowance for depreciation and amort	(1,121,012)	(342,690)	(145,801)	(168,728)	(33)	(165,997)	(10)	(36)	(241,172)	(96,861)	(45,538)	-	(2,327,870)	(28,125)	(13,316)	(389)	(4,524)	(86,890)	-	(2,461,114)
<b>Total property, plant and equipment, net</b>	<b>1,221,691</b>	<b>186,121</b>	<b>158,633</b>	<b>272,014</b>	<b>-</b>	<b>550,085</b>	<b>97</b>	<b>53</b>	<b>440,231</b>	<b>65,483</b>	<b>34,599</b>	<b>-</b>	<b>2,929,017</b>	<b>62,856</b>	<b>16,865</b>	<b>130</b>	<b>18,790</b>	<b>36,365</b>	<b>-</b>	<b>3,064,023</b>
Due from affiliates, net of current portion	146,108	-	1,904	1,002	-	-	-	-	1,353,030	-	(1,360,448)	-	141,596	-	-	-	-	461	(58,614)	83,443
Estimated malpractice recoveries, net of current portion	26,376	2,782	1,182	967	-	2,053	-	-	6,575	-	-	-	39,935	969	-	-	-	4,525	-	45,429
Swap counterparty deposit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	56,477	-	56,477
Other assets	7,337	-	57	-	-	10,647	-	-	4,836	2,611	2,099	-	27,587	5	6,371	-	1,652	-	-	35,615
<b>Total assets</b>	<b>\$ 3,235,429</b>	<b>\$ 422,528</b>	<b>\$ 416,590</b>	<b>\$ 611,537</b>	<b>\$ 34,806</b>	<b>\$ 1,231,331</b>	<b>\$ 91,596</b>	<b>\$ 342,755</b>	<b>\$ 1,041,295</b>	<b>\$ 2,013,190</b>	<b>\$ 61,089</b>	<b>\$ (1,436,201)</b>	<b>\$ 8,065,945</b>	<b>\$ 536,078</b>	<b>\$ 42,634</b>	<b>\$ 19,467</b>	<b>\$ 119,376</b>	<b>\$ 260,515</b>	<b>\$ (295,995)</b>	<b>\$ 8,748,020</b>
<b>Liabilities and Net Assets</b>																				
<b>Current liabilities</b>																				
Current portion of long-term debt and obligations under capital leases	\$ 19,740	\$ 6,423	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,808	\$ 35,093	\$ 2,244	\$ -	\$ 66,308	\$ 2,115	\$ 870	\$ -	\$ -	\$ 142	\$ -	\$ 69,435
Accounts payable and accrued liabilities	242,009	52,903	33,381	48,600	79	53,599	5,219	1,283	55,218	138,725	1,354	-	632,730	82,035	1,930	29	426	66,465	-	783,615
Medical claims reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	165,429	-	-	-	-	(38,617)	126,812
Deferred revenue	2,400	4,702	238	-	-	1,136	-	-	1,345	4	-	-	9,825	115,115	-	-	-	1,943	-	126,883
Due to affiliates, current portion	43,268	7,977	8,923	10,943	87	7,125	164	14	36,935	3,709	660	(75,753)	44,052	20,646	1,236	48	3,100	15,605	(70,485)	14,202
Advances from third-party payors	89,624	15,715	9,769	7,190	-	-	-	-	-	-	-	-	122,298	-	-	-	-	-	-	122,298
Current portion of est malpractice costs	38,282	4,091	1,746	1,376	-	2,978	-	-	9,536	-	-	-	58,009	1,399	-	-	-	6,726	-	66,134
<b>Total current liabilities</b>	<b>435,323</b>	<b>91,811</b>	<b>54,057</b>	<b>68,109</b>	<b>166</b>	<b>65,198</b>	<b>5,383</b>	<b>1,297</b>	<b>105,842</b>	<b>177,531</b>	<b>4,258</b>	<b>(75,753)</b>	<b>933,222</b>	<b>386,739</b>	<b>4,036</b>	<b>77</b>	<b>3,526</b>	<b>90,881</b>	<b>(109,102)</b>	<b>1,309,379</b>
Long-term debt and obligations under capital leases, net of current portion	127,979	53,688	156	214	-	41	-	-	94,863	1,637,361	23,655	-	1,937,957	25,238	1,877	-	-	1,647	-	1,966,719
Est malpractice costs, net of current portion	84,886	11,404	5,204	1,886	-	6,488	-	-	21,341	-	-	-	131,209	2,973	-	-	-	14,028	-	148,210
Net pension liability	464,933	182,223	3,441	3,488	-	-	-	-	271,321	-	-	-	925,406	-	-	-	-	-	-	925,406
Other long-term liabilities	784,441	63,585	186,737	136,665	245	304,978	216	-	155,376	2,713	225	(1,360,448)	274,733	821	1,267	13	878	62,867	(58,614)	281,965
<b>Total liabilities</b>	<b>1,897,562</b>	<b>402,711</b>	<b>249,595</b>	<b>210,362</b>	<b>411</b>	<b>376,705</b>	<b>5,599</b>	<b>1,297</b>	<b>377,422</b>	<b>2,088,926</b>	<b>28,138</b>	<b>(1,436,201)</b>	<b>4,202,527</b>	<b>415,771</b>	<b>7,180</b>	<b>90</b>	<b>4,404</b>	<b>169,423</b>	<b>(167,716)</b>	<b>4,631,679</b>
<b>Net assets</b>																				
Net assets without donor restrictions	1,330,854	11,877	153,604	401,175	547	850,896	43,128	341,458	646,145	(75,786)	32,951	-	3,736,849	120,307	35,454	8,332	56,415	90,214	(99,479)	3,948,092
Net assets with donor restrictions	7,013	7,940	13,391	-	33,848	3,730	42,869	-	17,728	50	-	-	126,569	-	-	11,045	58,557	878	(28,800)	168,249
<b>Total net assets</b>	<b>1,337,867</b>	<b>19,817</b>	<b>166,995</b>	<b>401,175</b>	<b>34,395</b>	<b>854,266</b>	<b>85,997</b>	<b>341,458</b>	<b>663,873</b>	<b>(75,736)</b>	<b>32,951</b>	<b>-</b>	<b>3,863,418</b>	<b>120,307</b>	<b>35,454</b>	<b>19,377</b>	<b>114,972</b>	<b>91,092</b>	<b>(128,279)</b>	<b>4,116,341</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,235,429</b>	<b>\$ 422,528</b>	<b>\$ 416,590</b>	<b>\$ 611,537</b>	<b>\$ 34,806</b>	<b>\$ 1,231,331</b>	<b>\$ 91,596</b>	<b>\$ 342,755</b>	<b>\$ 1,041,295</b>	<b>\$ 2,013,190</b>	<b>\$ 61,089</b>	<b>\$ (1,436,201)</b>	<b>\$ 8,065,945</b>	<b>\$ 536,078</b>	<b>\$ 42,634</b>	<b>\$ 19,467</b>	<b>\$ 119,376</b>	<b>\$ 260,515</b>	<b>\$ (295,995)</b>	<b>\$ 8,748,020</b>

# The Johns Hopkins Health System Corporation and Affiliates

## Supplementary Consolidating Balance Sheets

### June 30, 2018

(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Other Consolidated Entities	Suburban Hospital, Inc. Foundation	Sibley Memorial Hospital	Sibley Memorial Hospital Foundation	Sibley Other Affiliates	Johns Hopkins All Children's Hospital, Inc.	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	Eliminations	Johns Hopkins Health System Obligated Group Subtotal	Johns Hopkins HealthCare LLC and Subsidiaries	Johns Hopkins HealthCare Imaging	Howard Hospital Foundation	Johns Hopkins All Children's Foundation, Inc.	Other	Eliminations	Consolidated Johns Hopkins Health System Corporation and Affiliates	
<b>Assets</b>																					
<b>Current assets</b>																					
Cash and cash equivalents	\$ 80,848	\$ 20,060	\$ 10,414	\$ 10,424	\$ -	\$ 28,692	\$ 3,617	\$ -	\$ 31,561	\$ 200,154	\$ 87	\$ -	\$ 385,857	\$ 134,719	\$ 14,395	\$ 1,153	\$ 4,970	\$ 38,699	\$ -	\$ 579,793	
Short-term investments	-	150	49	407	-	772	170	-	100	55,407	200	-	57,255	-	-	-	129	-	-	57,384	
Assets whose use is limited - used for curr liabs	12,864	-	-	1,479	-	-	-	-	-	-	-	-	14,343	-	-	-	-	-	-	14,343	
Patient accounts receivables, net	291,818	58,492	30,409	36,467	-	39,363	-	-	81,735	-	152	-	538,436	60,994	-	-	-	18,871	(34,349)	583,952	
Due from others, current portion	49,253	6,999	906	3,704	106	4,690	111	-	3,445	4,343	294	-	73,851	23,350	1,907	19	137	7,463	-	106,747	
Due from affiliates, current portion	16,333	300	359	963	-	-	-	-	1,187	80,635	178	(59,543)	40,332	22,911	3,779	-	4	44,415	(76,149)	35,292	
Inventories of supplies	69,999	10,510	5,012	10,958	-	7,078	-	-	10,597	7,863	194	-	122,211	-	-	-	-	275	-	122,486	
Estimated malpractice recoveries, current portion	25,469	2,760	1,109	921	-	1,881	-	-	6,810	-	-	-	38,950	992	-	-	-	4,453	-	44,395	
Prepaid expenses and other current assets	12,714	1,512	936	3,862	293	4,242	22	11	5,249	2,562	138	-	31,541	13,089	15	12	34	1,743	-	46,434	
<b>Total current assets</b>	<b>559,298</b>	<b>100,803</b>	<b>49,194</b>	<b>69,185</b>	<b>399</b>	<b>86,718</b>	<b>3,920</b>	<b>11</b>	<b>140,684</b>	<b>350,864</b>	<b>1,243</b>	<b>(59,543)</b>	<b>1,302,778</b>	<b>256,055</b>	<b>20,096</b>	<b>1,184</b>	<b>5,274</b>	<b>115,939</b>	<b>(110,498)</b>	<b>1,590,826</b>	
<b>Assets whose use is limited</b>																					
<b>By donors or grantors for</b>																					
Fiduciary receivable	875	196	-	-	7,777	-	11,971	-	205	-	-	-	21,014	-	-	3,963	5,849	-	-	30,826	
Other	6,584	7,824	-	-	24,389	4,372	49,573	-	6,255	-	-	-	98,997	-	-	3,400	16,799	-	-	119,196	
By Board of Trustees	68,086	54,243	20,046	-	-	73,447	10,534	327,446	15,801	-	-	-	569,603	-	-	-	713	-	-	570,316	
Other	2,318	964	18,406	-	111	-	-	-	70,058	15,990	222	-	108,069	200	-	-	-	-	-	19,938	
<b>Total assets whose use is limited</b>	<b>77,863</b>	<b>63,217</b>	<b>38,452</b>	<b>-</b>	<b>32,277</b>	<b>77,819</b>	<b>72,078</b>	<b>327,446</b>	<b>92,319</b>	<b>15,990</b>	<b>222</b>	<b>-</b>	<b>797,683</b>	<b>200</b>	<b>-</b>	<b>7,363</b>	<b>23,361</b>	<b>-</b>	<b>(88,331)</b>	<b>740,276</b>	
<b>Investments</b>																					
Property, plant and equipment	2,289,910	534,021	285,162	346,025	38	676,881	107	91	648,617	157,115	80,279	-	5,018,246	59,410	20,420	519	23,318	108,809	-	5,230,722	
Less: Allowance for depreciation and amort	(1,024,887)	(330,268)	(136,309)	(156,750)	(38)	(146,506)	(10)	(33)	(209,534)	(85,793)	(43,102)	-	(2,133,230)	(21,763)	(13,111)	(67)	(4,044)	(84,238)	-	(2,256,453)	
<b>Total property, plant and equipment, net</b>	<b>1,265,023</b>	<b>203,753</b>	<b>148,853</b>	<b>189,275</b>	<b>-</b>	<b>530,375</b>	<b>97</b>	<b>58</b>	<b>439,083</b>	<b>71,322</b>	<b>37,177</b>	<b>-</b>	<b>2,885,016</b>	<b>37,647</b>	<b>7,309</b>	<b>452</b>	<b>19,274</b>	<b>24,571</b>	<b>-</b>	<b>2,974,269</b>	
Due from affiliates, net of current portion	131,464	-	2,985	1,529	-	-	-	-	1,392,637	-	-	(1,396,012)	132,603	-	-	-	-	-	1,197	(36,520)	97,280
Estimated malpractice recoveries, net of current portion	19,529	2,116	850	706	-	1,443	-	-	5,222	-	-	-	29,866	761	-	-	-	3,415	-	34,042	
Swap counterparty deposit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,851	-	33,851	
Other assets	6,947	-	31	-	-	3,488	-	-	1,457	1,792	-	-	13,715	5	7,446	-	-	1,602	-	22,768	
<b>Total assets</b>	<b>\$ 3,119,490</b>	<b>\$ 431,953</b>	<b>\$ 385,119</b>	<b>\$ 585,792</b>	<b>\$ 32,676</b>	<b>\$ 1,109,158</b>	<b>\$ 90,106</b>	<b>\$ 327,515</b>	<b>\$ 1,070,501</b>	<b>\$ 2,085,785</b>	<b>\$ 63,275</b>	<b>\$ (1,455,555)</b>	<b>\$ 7,845,815</b>	<b>\$ 529,814</b>	<b>\$ 34,851</b>	<b>\$ 18,338</b>	<b>\$ 164,225</b>	<b>\$ 212,815</b>	<b>\$ (328,397)</b>	<b>\$ 8,477,461</b>	
<b>Liabilities and Net Assets</b>																					
<b>Current liabilities</b>																					
Current portion of long-term debt and obligations under capital leases	19,879	6,295	-	-	-	-	-	-	2,520	22,526	1,962	-	53,182	-	843	-	-	-	-	54,025	
Accounts payable and accrued liabilities	209,820	53,555	24,958	45,019	76	50,170	4,681	1,413	62,381	123,220	758	-	576,051	87,408	1,246	(1)	555	61,905	-	727,164	
Medical claims reserve	-	-	-	-	-	-	-	-	-	-	-	-	157,627	-	-	-	-	-	(39,443)	118,184	
Deferred revenue	2,711	5,804	461	89	-	1,292	-	-	1,057	375	-	-	11,789	127,209	-	2	-	1,826	-	140,826	
Due to affiliates, current portion	29,897	7,062	6,649	37	17,672	51	5	41,152	3,028	545	(59,543)	-	56,169	14,152	1,610	51	1,505	7,693	(71,055)	10,125	
Advances from third-party payors	81,956	14,878	10,189	7,073	-	-	-	-	-	-	-	-	114,096	-	-	-	-	-	-	114,096	
Current portion of est malpractice costs	26,609	2,928	1,175	939	-	1,961	-	-	7,099	-	-	-	40,711	1,031	-	-	-	4,817	-	46,559	
<b>Total current liabilities</b>	<b>370,872</b>	<b>90,522</b>	<b>46,397</b>	<b>59,769</b>	<b>113</b>	<b>71,095</b>	<b>4,732</b>	<b>1,418</b>	<b>114,209</b>	<b>149,149</b>	<b>3,265</b>	<b>(59,543)</b>	<b>851,998</b>	<b>387,427</b>	<b>3,699</b>	<b>52</b>	<b>2,060</b>	<b>76,241</b>	<b>(110,498)</b>	<b>1,210,979</b>	
<b>Long-term debt and obligations under capital leases, net of current portion</b>																					
Est malpractice costs, net of current portion	148,653	58,707	-	-	-	-	-	-	96,247	1,665,810	25,898	-	1,993,715	-	2,708	-	-	-	-	1,996,423	
Net pension liability	72,670	9,526	3,910	1,572	-	5,963	-	-	19,211	18,670	-	-	113,252	2,573	-	-	-	12,428	-	128,253	
Other long-term liabilities	360,595	149,617	1,901	3,121	-	-	-	-	217,784	733,018	-	-	-	-	-	-	-	-	-	733,018	
<b>Total liabilities</b>	<b>1,716,880</b>	<b>373,060</b>	<b>238,882</b>	<b>204,417</b>	<b>358</b>	<b>385,665</b>	<b>4,948</b>	<b>1,418</b>	<b>382,295</b>	<b>2,035,026</b>	<b>29,390</b>	<b>(1,455,555)</b>	<b>3,916,784</b>	<b>390,916</b>	<b>8,230</b>	<b>65</b>	<b>2,482</b>	<b>130,336</b>	<b>(147,018)</b>	<b>4,301,795</b>	
<b>Net assets</b>																					
Net assets without donor restrictions	1,394,528	50,883	135,168	381,375	1,376	719,792	39,127	326,097	669,536	50,759	33,885	-	3,802,526	138,898	26,621	7,963	52,972	81,593	(101,011)	4,009,562	
Net assets with donor restrictions	8,082	8,010	11,069	-	30,942	3,701	46,031	-	18,670	-	-	-	126,505	-	-	10,310	108,771	886	(80,368)	166,104	
<b>Total net assets</b>	<b>1,402,610</b>	<b>58,893</b>	<b>146,237</b>	<b>381,375</b>	<b>32,318</b>	<b>723,493</b>	<b>85,158</b>	<b>326,097</b>	<b>688,206</b>	<b>50,759</b>	<b>33,885</b>	<b>-</b>	<b>3,929,031</b>	<b>138,898</b>	<b>26,621</b>	<b>18,273</b>	<b>161,743</b>	<b>82,479</b>	<b>(181,379)</b>	<b>4,175,666</b>	
<b>Total liabilities and net assets</b>	<b>\$ 3,119,490</b>	<b>\$ 431,953</b>	<b>\$ 385,119</b>	<b>\$ 585,792</b>	<b>\$ 32,676</b>	<b>\$ 1,109,158</b>	<b>\$ 90,106</b>	<b>\$ 327,515</b>	<b>\$ 1,070,501</b>	<b>\$ 2,085,785</b>	<b>\$ 63,275</b>	<b>\$ (1,455,555)</b>	<b>\$ 7,845,815</b>	<b>\$ 529,814</b>	<b>\$ 34,851</b>	<b>\$ 18,338</b>	<b>\$ 164,225</b>	<b>\$ 212,815</b>	<b>\$ (328,397)</b>	<b>\$ 8,477,461</b>	

# The Johns Hopkins Health System Corporation and Affiliates

## Supplementary Consolidating Statements of Operations and Changes in Net Assets

### June 30, 2019

(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Other Consolidated Entities	Suburban Hospital, Inc. Foundation	Sibley Memorial Hospital	Sibley Memorial Hospital Foundation	Sibley Other Affiliates	Johns Hopkins All Children's Hospital, Inc.	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	Eliminations	Johns Hopkins Health System Obligated Group Subtotal	Johns Hopkins HealthCare LLC and Subsidiaries	Johns Hopkins HealthCare Imaging	Howard Hospital Foundation	Johns Hopkins All Children's Foundation, Inc.	Other	Eliminations	Consolidated Johns Hopkins Health System Corporation and Affiliates	
<b>Operating revenues and other support</b>																					
Net patient service revenue	\$ 2,121,134	\$ 588,871	\$ 259,798	\$ 289,980	\$ -	\$ 378,401	\$ -	\$ -	\$ 431,802	\$ -	\$ 2,795	\$ -	\$ 4,072,781	\$ 104,901	\$ -	\$ -	\$ -	\$ 328,374	\$ (614,613)	\$ 3,891,443	
Insurance premium revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	2,090,994	-	-	-	427,241	(427,242)	2,090,993	
Other revenue	406,478	58,316	21,873	18,502	895	37,287	988	-	66,511	394,358	9,502	(272,103)	742,607	52,316	49,285	925	13,235	173,750	(201,248)	830,880	
Net assets released from restrict used for operations	78	913	700	-	1,310	2,607	355	-	740	-	-	-	6,703	-	-	1,244	5,488	120	-	13,555	
Total operating revenues and other support	2,527,690	648,100	282,371	308,482	2,205	418,295	1,343	-	499,053	394,358	12,297	(272,103)	4,822,091	2,248,211	49,285	2,169	18,723	929,495	(1,243,103)	6,826,871	
<b>Operating expenses</b>																					
Salaries, wages and benefits	855,610	270,054	127,093	134,355	887	166,159	1,190	136	244,173	208,294	1,619	-	2,009,570	135,171	18,950	518	2,998	323,760	(11,029)	2,479,938	
Purchased services	752,596	224,606	76,438	70,448	2,634	77,206	1,192	962	153,187	163,150	4,171	(224,000)	1,302,590	2,099,150	13,468	797	14,638	564,259	(1,224,466)	2,770,436	
Supplies and other	670,161	110,892	42,611	72,439	4	109,818	43	6	79,523	4,612	2,714	-	1,092,823	10,290	3,606	19	782	37,485	(2,637)	1,142,368	
Interest	23,187	3,820	5,778	2,065	8	7,594	-	-	6,059	57,450	2,379	(48,103)	60,237	982	202	-	92	-	(108)	61,405	
Depreciation and amortization	125,927	30,844	13,175	17,727	-	31,990	-	6	33,687	12,354	2,924	-	268,634	11,952	3,718	323	484	6,422	-	291,533	
Total operating expenses	2,427,481	640,216	265,095	297,034	3,533	392,767	2,425	1,110	516,629	445,860	13,807	(272,103)	4,733,854	2,257,545	39,944	1,657	18,902	932,018	(1,238,240)	6,745,680	
Income (loss) from operations	100,209	7,884	17,276	11,448	(1,328)	25,528	(1,082)	(1,110)	(17,576)	(51,502)	(1,510)	-	88,237	(9,334)	9,341	512	(179)	(2,523)	(4,863)	81,191	
<b>Non-operating revenues and expenses</b>																					
Interest expense on swap agreements	(12,057)	(965)	(843)	(263)	-	-	-	-	(1,997)	-	-	-	(16,228)	-	-	-	-	-	-	(16,228)	
Change in fair value of interest swap agreements	(39,433)	(611)	(4,389)	190	-	-	-	-	(7,431)	-	-	-	(51,563)	-	-	-	-	-	-	(51,563)	
Investment return, net	45,333	4,187	7,593	9,637	499	51,314	5,084	32,933	20,133	12,010	714	-	189,437	1,617	-	2	4,972	31	-	196,059	
Other components of net periodic pension cost	(36,579)	(11,280)	(755)	309	-	(17,807)	-	-	(10,199)	-	-	-	(76,311)	(3,374)	(508)	-	-	(5,307)	-	(85,500)	
Other non-operating expenses	(11,269)	-	(400)	(498)	-	(134)	-	-	(8,126)	(3,986)	-	-	(24,413)	-	-	-	-	-	(158)	(23,093)	
Excess of revenues over (under) expenses before noncontrolling interests	46,204	(788)	18,383	20,813	(829)	58,901	4,002	31,823	(14,997)	(53,677)	(796)	-	109,039	(11,091)	8,833	514	4,793	(7,957)	(3,385)	100,746	
Noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	1,126	-	-	-	-	(5,865)	4,708	
Excess of revenues over (under) expenses	46,204	(788)	18,383	20,813	(829)	58,901	4,002	31,823	(14,997)	(53,677)	(796)	-	109,039	(9,965)	8,833	514	4,793	(13,822)	1,323	100,715	
Contributions (to) from affiliates	(12,000)	-	931	-	-	25,000	-	-	(8,304)	(12,000)	-	-	(6,463)	(7,500)	-	(1,100)	(1,961)	8,594	7,767	(663)	
Change in funded status of defined benefit plans	(109,433)	(38,218)	(1,225)	(1,721)	-	23,214	-	-	-	(62,509)	-	-	(189,892)	-	-	-	-	-	-	(189,892)	
Net assets released from restrictions used for purchases of property, plant, and equipment	11,555	-	347	708	-	7,526	-	-	-	129	-	-	20,265	-	-	-	-	-	-	20,265	
Noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,126)	-	-	-	-	5,865	(4,708)	31	
Other	-	-	-	-	-	16,462	-	(16,462)	-	1,512	(138)	-	1,374	-	-	955	611	-	7,984	(2,850)	
(Decrease) increase in net assets without donor restrictions	(63,674)	(39,006)	18,436	19,800	(829)	131,103	4,002	15,361	(23,391)	(126,545)	(834)	-	(65,677)	(18,591)	8,833	369	3,443	8,621	1,532	(61,470)	
<b>Changes in net assets with donor restrictions</b>																					
Gifts, grants and bequests	10,564	843	3,369	-	4,924	30	7,325	-	(202)	179	-	-	27,032	-	-	-	1,979	7,578	(52,192)	51,568	
Net assets released from restrictions used for purchases of property, plant, and equipment	(11,555)	-	(347)	-	(708)	-	(7,526)	-	(129)	-	-	-	(20,265)	-	-	-	-	-	-	(20,265)	
Net assets released from restrict used for operations	(78)	(913)	(700)	-	(1,310)	-	(2,962)	-	(740)	-	-	-	(6,703)	-	-	(1,244)	(5,488)	(120)	-	(13,555)	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(52,304)	52,304	-	-	
(Decrease) increase in net assets with donor restrictions	(1,069)	(70)	2,322	-	2,906	30	(3,163)	-	(942)	50	-	-	64	-	-	735	(50,214)	(8)	51,568	2,145	
(Decrease) increase in net assets	(64,743)	(39,076)	20,758	19,800	2,077	131,133	839	15,361	(24,333)	(126,495)	(934)	-	(65,613)	(18,591)	8,833	1,104	(46,771)	8,613	53,100	(59,325)	
<b>Net assets</b>																					
Beginning of year	1,402,610	58,893	146,237	381,375	32,318	723,493	85,158	326,097	688,206	50,759	33,885	-	3,929,031	138,898	26,621	18,273	161,743	82,479	(181,379)	4,175,666	
End of year	\$ 1,337,867	\$ 19,817	\$ 166,995	\$ 401,175	\$ 34,395	\$ 854,626	\$ 85,997	\$ 341,458	\$ 663,873	\$ (75,736)	\$ 32,951	\$ -	\$ 3,863,418	\$ 120,307	\$ 35,454	\$ 19,377	\$ 114,972	\$ 91,092	\$ (128,279)	\$ 4,116,341	

# The Johns Hopkins Health System Corporation and Affiliates

## Supplementary Consolidating Statements of Operations and Changes in Net Assets

### June 30, 2018

(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Other Consolidated Entities	Suburban Hospital, Inc. Foundation	Sibley Memorial Hospital	Sibley Memorial Hospital Foundation	Sibley Other Affiliates	Johns Hopkins All Children's Hospital, Inc.	The Johns Hopkins Health System Corporation	Suburban Hospital Healthcare System, Inc.	Eliminations	Johns Hopkins Health System Obligated Group Subtotal	Johns Hopkins HealthCare LLC and Subsidiaries	Johns Hopkins HealthCare Imaging	Howard Hospital Foundation	Johns Hopkins All Children's Foundation, Inc.	Other	Eliminations	Consolidated Johns Hopkins Health System Corporation and Affiliates
<b>Operating revenues and other support</b>																				
Net patient service revenue	\$ 2,041,319	\$ 569,967	\$ 268,126	\$ 281,731	\$ -	\$ 338,059	\$ -	\$ -	\$ 435,772	\$ -	\$ 2,976	\$ -	\$ 3,937,950	\$ 95,366	\$ -	\$ -	\$ -	\$ 299,395	\$ (575,119)	\$ 3,757,592
Insurance premium revenue	-	-	-	-	-	-	-	-	-	-	-	-	1,982,600	-	-	-	-	412,392	(412,392)	1,982,600
Other revenue	365,931	55,293	5,409	19,567	830	35,813	1,173	-	57,263	408,219	9,303	(258,715)	700,066	47,053	45,659	864	7,662	178,452	(237,118)	742,658
Net assets released from restricted used for operations	152	722	625	-	1,755	2,421	334	-	1,164	-	-	-	7,173	-	-	1,527	6,360	23	-	15,083
<b>Total operating revenues and other support</b>	<b>2,407,402</b>	<b>625,982</b>	<b>274,160</b>	<b>301,298</b>	<b>2,585</b>	<b>376,293</b>	<b>1,507</b>	<b>-</b>	<b>494,199</b>	<b>408,219</b>	<b>12,279</b>	<b>(258,715)</b>	<b>4,645,209</b>	<b>2,125,019</b>	<b>45,659</b>	<b>2,391</b>	<b>14,022</b>	<b>890,259</b>	<b>(1,224,829)</b>	<b>6,497,930</b>
<b>Operating expenses</b>																				
Salaries, wages and benefits	826,137	261,421	128,956	131,259	815	152,651	1,180	67	222,394	198,661	1,605	-	1,925,146	123,766	16,156	769	2,759	305,512	(11,829)	2,362,279
Purchased services	729,506	217,328	76,316	65,828	2,788	66,782	949	1,149	133,170	146,229	4,282	(216,443)	1,227,884	1,967,113	12,757	606	11,371	552,970	(1,168,212)	2,604,489
Supplies and other	634,638	104,354	39,376	75,191	16	94,890	70	1	76,831	2,121	1,895	-	1,029,383	5,280	3,809	32	423	25,941	(9,178)	1,055,690
Interest	20,107	3,379	6,028	3,111	-	10,632	-	-	4,110	51,426	2,540	(42,272)	59,061	541	215	-	72	240	(137)	59,992
Depreciation and amortization	129,216	31,095	12,711	16,183	1	36,527	-	6	26,874	12,141	2,914	-	267,668	8,159	4,515	40	494	5,284	-	286,160
<b>Total operating expenses</b>	<b>2,339,604</b>	<b>617,577</b>	<b>263,387</b>	<b>291,572</b>	<b>3,620</b>	<b>361,482</b>	<b>2,199</b>	<b>1,223</b>	<b>463,379</b>	<b>410,578</b>	<b>13,236</b>	<b>(258,715)</b>	<b>4,509,142</b>	<b>2,104,859</b>	<b>37,452</b>	<b>1,447</b>	<b>15,119</b>	<b>889,947</b>	<b>(1,189,356)</b>	<b>6,368,610</b>
Income (loss) from operations	67,798	8,405	10,773	9,726	(1,035)	14,811	(692)	(1,223)	30,820	(2,359)	(957)	-	136,067	20,160	8,207	944	(1,097)	312	(35,273)	129,320
<b>Non-operating revenues and expenses</b>																				
Interest expense on swap agreements	(14,987)	(1,409)	(1,169)	(447)	-	-	-	-	(2,499)	-	-	-	(20,511)	-	-	-	-	-	-	(20,511)
Change in fair value of interest swap agreements	36,095	2,470	3,139	569	-	-	-	-	5,934	-	-	-	48,207	-	-	-	-	-	-	48,207
Investment return, net	48,576	4,918	5,374	19,660	595	46,897	4,967	32,265	22,093	2,839	914	-	189,098	(1,456)	-	472	7,156	59	-	195,325
Other components of net periodic pension cost	(41,731)	(13,562)	(637)	328	-	595	-	-	(10,139)	-	-	-	(65,346)	(3,313)	(468)	-	-	(5,274)	-	(74,400)
Other non-operating expenses	(10,311)	(11)	713	4	-	(2,201)	-	-	(12,440)	(5,775)	-	-	(30,021)	-	-	-	-	(194)	1,675	(28,540)
Excess of revenues over (under) expenses before noncontrolling interests	85,440	811	17,993	29,840	(440)	60,102	4,275	31,042	43,908	(15,434)	(43)	-	257,494	15,392	7,739	1,416	6,059	(5,097)	(33,598)	249,405
Noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	12,567	-	-	-	-	(1,833)	7,867
Excess of revenues over (under) expenses	85,440	811	17,993	29,840	(440)	60,102	4,275	31,042	43,908	(15,434)	(43)	-	257,494	27,959	7,739	1,416	6,059	(6,930)	(36,465)	257,272
Contributions (to) from affiliates	(17,000)	-	292	-	-	-	-	-	(16,524)	18,000	-	-	(15,232)	(9,336)	-	(649)	(1,209)	17,091	34,046	24,711
Change in funded status of defined benefit plans	28,314	10,195	244	733	-	(9,572)	-	-	(6,647)	-	-	-	23,267	-	-	-	-	-	-	23,267
Net assets released from restrictions used for purchases of property, plant, and equipment	20,598	1,001	393	1,404	-	146	-	-	1,121	-	-	-	24,663	-	-	-	-	-	-	24,663
Noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	(12,567)	-	-	-	-	1,833	2,867	(7,867)
Other	-	-	-	-	-	21,857	-	(21,857)	-	4,220	(36)	-	4,184	-	-	1,018	(123)	-	(1,108)	3,971
Increase (decrease) in net assets without donor restrictions	117,352	12,007	18,922	31,977	(440)	72,533	4,275	9,185	27,384	1,260	(79)	-	294,376	6,056	7,739	1,785	4,727	11,994	(660)	326,017
<b>Changes in net assets with donor restrictions</b>																				
Gifts, grants and bequests	2,232	1,820	(260)	-	6,458	(32)	5,903	-	1,021	1,121	-	-	18,263	-	-	954	5,635	(93)	134	24,893
Net assets released from restrictions used for purchases of property, plant, and equipment	(20,598)	(1,001)	(393)	-	(1,404)	-	(146)	-	(1,121)	-	-	-	(24,663)	-	-	-	-	-	-	(24,663)
Net assets released from restricted used for operations	(152)	(722)	(625)	-	(1,755)	(92)	(2,663)	-	(1,164)	-	-	-	(7,173)	-	-	(1,527)	(6,360)	(20)	-	(15,080)
Other	-	-	-	-	-	-	-	-	(2,448)	-	-	-	(2,448)	-	-	-	(1,019)	-	1,018	(2,557)
(Decrease) increase in net assets with donor restrictions	(18,518)	97	(1,278)	-	3,299	(124)	3,094	-	(143)	(2,448)	-	-	(16,021)	-	-	(1,591)	(834)	(113)	1,152	(17,407)
Increase (decrease) in net assets	98,834	12,104	17,644	31,977	2,859	72,409	7,369	9,185	27,241	(1,188)	(79)	-	278,355	6,056	7,739	194	3,893	11,881	492	308,610
<b>Net assets</b>																				
Beginning of year	1,303,776	46,789	128,593	349,398	29,459	651,084	77,789	316,912	660,965	51,947	33,964	-	3,650,676	132,842	18,882	18,079	157,850	70,598	(181,871)	3,867,056
End of year	\$ 1,402,610	\$ 58,893	\$ 146,237	\$ 381,375	\$ 32,318	\$ 723,493	\$ 85,158	\$ 326,097	\$ 688,206	\$ 50,759	\$ 33,885	\$ -	\$ 3,929,031	\$ 138,898	\$ 26,621	\$ 18,273	\$ 161,743	\$ 82,479	\$ (181,379)	\$ 4,175,666

# **The Johns Hopkins Health System Corporation and Affiliates**

## **Notes to Supplementary Consolidating Financial Statements**

### **For the Years Ended June 30, 2019 and 2018**

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#### **1. Basis of Presentation and Accounting**

The Supplementary Consolidating Financial Statements presented on pages 49-52 were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial positions and changes in net assets of the individual companies within JHHS and are not a required part of the consolidated financial statements. The individual affiliates within JHHS as presented within the supplementary consolidating financial statements are disclosed within Note 1 to the consolidated financial statements.





## Report of Independent Auditors

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

We have audited the consolidated financial statements of The Johns Hopkins Health System Corporation and Affiliates as of and for the year ended June 30, 2019 and our report thereon appears on pages 1 and 2 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary Hopkins Elder Plus PACE Program Statement of Operations information is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

September 26, 2019

**The Johns Hopkins Health System Corporation and Affiliates**  
**Hopkins Elder Plus - Pace Program**  
**Statement of Operations**  
**For the Year Ended June 30, 2019**

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*(in thousands)*

**Revenue**

Output revenue	\$ 13,888
Total revenue	<u>13,888</u>

**Expenses**

Salaries, wages and benefits	3,894
Purchased services	7,785
Supplies and other	1,788
Depreciation	59
Total expenses	<u>13,526</u>
Excess of revenue over (under) expenses	<u>\$ 362</u>

**The Johns Hopkins Health System Corporation and Affiliates**  
**Notes to Hopkins Elder Plus - Pace Program Statements of Operations**  
**For the Year Ended June 30, 2019**

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**1. Basis of Presentation**

The supplementary Hopkins Elder Plus – Pace Program statement of operations presented on page 55 was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The statement of operations is presented for purposes of additional analysis rather than to present the financial position and changes in net assets of the program and is not a required part of the consolidated financial statements.