

THE JOHNS HOPKINS HEALTH SYSTEM CORPORATION AND AFFILIATES

**Combined Financial Statements and
Supplementary Combining Information
June 30, 2015 and 2014**

The Johns Hopkins Health System Corporation and Affiliates

Index

June 30, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the JHHS' preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of JHHS at June 30, 2015 and 2014, 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

September 23, 2015

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

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

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

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

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

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

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

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

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

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

1. Organization and Summary of Significant Accounting Policies

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

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

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

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

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

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

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

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

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

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

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

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

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

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

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

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

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

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

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

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

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

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

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

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

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

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

2. Net Patient Service Revenue

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

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

Effective January 1, 2014, with retroactive application to revenues generated by services provided after June 30, 2013, the Commission and the Center for Medicare and Medicaid Services entered into a Global Budget Revenue Agreement (“GBR”). The agreement will remain in effect through December 31, 2018. The GBR moves from a Medicare per admission methodology to a per capita population health based methodology. However, all hospitals continue to receive reimbursement

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under an all payor basis. The methodology also includes a new waiver test. Under the new waiver test, growth in revenue per capita will be limited to a rate of 3.58% for the State of Maryland in total. The new agreement sets a hospital's revenue base annually under a global budget arrangement, whereby revenue would be fixed regardless of changes in volume and patient mix for Maryland residents. Hospital revenue for Maryland residents receiving care at Maryland hospitals is subject to this global budget. However, out of state patients receiving care at Maryland hospitals are not subject to the global budget. The hospital would receive full rate authority for any out of state volume and growth, or would receive less revenue for lower volumes of out of state patients. HCGH has negotiated to include out of state volume within their global budget; therefore, all in state and out of state volumes are subject to their global budget.

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

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

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

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

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

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

Patient accounts receivable are reported net of estimated allowances for uncollectible accounts and contractual adjustments in the accompanying financial statements. The provision for bad debts is based upon a combination of the payor source, the aging of receivables and management's assessment of historical and expected net collections, trends in health insurance coverage, and other collection indicators. The provision for bad debts related to patient service

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revenue is presented as a deduction from patient service revenue on the face of the Combined Statements of Operations and Changes in Net Assets. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospitals uninsured patients will be unable or unwilling to pay for the services provided. Thus, a significant provision for bad debts is recorded related to uninsured patients in the period services are provided. Management continuously assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience and payment trends by payor classification.

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

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

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

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

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

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

3. Pledges Receivable

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

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

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

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

4. Fair Value Measurements

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

JHHS follows the guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

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

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

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

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

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

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

<u>Assets</u>	Total Fair Value	Level 1	Level 2
Cash and cash equivalents (1)	\$ 613,394	\$ 613,394	\$ -
Commercial paper (1)	22,521	22,521	-
Certificates of deposit (1)	2,033	-	2,033
U.S. Treasuries (2)	513,485	-	513,485
Corporate bonds (2)	367,592	-	367,592
Asset backed securities (2)	117,486	-	117,486
Equities and equity funds (3)	993,172	668,330	324,842
Fixed income funds (4)	227,634	220,769	6,865
Totals	<u>\$ 2,857,317</u>	<u>\$ 1,525,014</u>	<u>\$ 1,332,303</u>
 <u>Liabilities</u>			
Interest rate swap agreements (5)	<u>\$ 190,621</u>	<u>\$ -</u>	<u>\$ 190,621</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 are carried at amortized cost. Certificates of deposit and commercial paper that have original maturities greater than three months are considered short-term investments. Cash and cash equivalents, commercial paper, money market funds, and overnight investments are rendered level 1 due to their frequent pricing and ease of converting to cash. Computed prices and frequent evaluation versus fair value render the certificates of deposit level 2.
- (2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and asset backed securities, fair value is based on quotes for similar securities; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates.
- (3) Equities include individual equities and investments in mutual funds, and commingled trusts. The individual equities and mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.

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- (4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are valued based on the closing price on the primary market and are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (5) The interest rate swap agreements, discussed further in footnote 9 "Derivative Financial Instruments," are valued using a swap valuation model that utilizes an income approach using observable market inputs including long-term interest rates, LIBOR swap rates, and credit default swap rates.

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

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

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

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

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

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

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

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

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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):

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

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

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

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

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

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

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

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

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

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

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

6. Property, Plant and Equipment

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

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

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

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

7. Medical Claims Reserves

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

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

8. Debt

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

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

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Obligated Group

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

2015 Series A Revenue Bonds - JHHSC

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

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

2015 Series B Revenue Bonds - JHHSC

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

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

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

2012 Series E Bonds - JHH

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

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2013 Series C Revenue Bonds - JHHSC

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

Letters of Credit

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

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

2016	\$	42,816
2017		34,271
2018		140,060
2019		43,004
2020		47,698
Thereafter		1,295,165
	<u>\$</u>	<u>1,603,014</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):

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

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

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

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

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

	Capital Lease Payments
2016	\$ 4,471
2017	4,502
2018	4,595
2019	4,341
2020	4,439
2021 and thereafter	31,430
Minimum lease payments	<u>53,778</u>
Interest on capital lease obligations	<u>(20,409)</u>
Net minimum payments	33,369
Current portion of capital lease obligation	<u>(1,661)</u>
Capital lease obligation, less current	<u>\$ 31,708</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 \$758.9 million and \$766.6 million as of June 30, 2015 and 2014, respectively.

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

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

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

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

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

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

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

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

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

10. Temporarily and Permanently Restricted Net Assets

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

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

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

	2015	2014
Health care services	\$ 45,841	\$ 45,982
Health education and counseling	12,906	12,609
	<u>\$ 58,747</u>	<u>\$ 58,591</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 UPMIFA in the State of Maryland, the State of Florida, and the District of Columbia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, JHHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

11. Pension Plans

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

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

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

<u>Change in benefit obligation</u>	2015	2014
Benefit obligation as of beginning of year	\$ 1,697,672	\$ 1,421,257
Service cost	62,453	52,881
Interest cost	77,502	71,507
Actuarial loss	41,283	196,275
Benefits paid	(49,276)	(44,248)
Benefit obligation as of June 30	<u>\$ 1,829,634</u>	<u>\$ 1,697,672</u>
 <u>Change in plan assets</u>	 2015	 2014
Fair value of plan assets as of beginning of year	\$ 1,248,837	\$ 1,013,133
Actual return on plan assets	(18,280)	164,579
Employer contribution	111,560	115,523
Benefits paid	(49,025)	(44,398)
Fair value of plan assets as of June 30	<u>\$ 1,293,092</u>	<u>\$ 1,248,837</u>
 <u>Funded Status as of June 30</u>	 2015	 2014
Fair value of plan assets	\$ 1,293,092	\$ 1,248,837
Projected benefit obligation	(1,829,634)	(1,697,672)
Unfunded status	<u>\$ (536,542)</u>	<u>\$ (448,835)</u>

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

	2015	2014
Net pension liability	\$ (536,542)	\$ (448,835)
Net amount recognized	<u>\$ (536,542)</u>	<u>\$ (448,835)</u>

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

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

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

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Net Periodic Pension Cost

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

Components of net periodic pension cost (in thousands):

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

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

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

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

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

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

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

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

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

Plan Assets

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

<u>Asset Class</u>	2015	2014
Cash and cash equivalents	1.34%	1.88%
Equities and equity funds	16.95%	32.49%
Fixed income funds	43.79%	28.49%
Alternative investments	<u>37.92%</u>	<u>37.14%</u>
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 strive to allocate assets between equity securities (including global asset allocation) and debt securities at a target rate of approximately 75% and 25%, respectively.

Fair Value of Plan Assets

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

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

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

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

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

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

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

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

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

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

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

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

Contributions and Estimated Future Benefit Payments

JHHS expects to contribute \$118.2 million to its pension plans in the fiscal year ending June 30, 2016.

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

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

Defined Contribution Plans

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

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

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

12. Professional and General Liability Insurance

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

JHH and the University each have a 10% ownership interest in the RRG and the captive insurance company, which is included in investments on the Combined Balance Sheets. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is

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reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions range between \$1.0 million and \$5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted using 0.87% and 0.64% as of June 30, 2015 and 2014, respectively.

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

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

Caption on Combined Balance Sheet	2015	2014
Estimated malpractice recoveries, current portion	\$ 37,344	\$ 224,902
Estimated malpractice recoveries, net of current	33,915	42,260
Total assets	<u>\$ 71,259</u>	<u>\$ 267,162</u>
Current portion of estimated malpractice costs	\$ 37,344	\$ 224,902
Estimated malpractice costs, net of current portion	33,915	42,260
Total liabilities	<u>\$ 71,259</u>	<u>\$ 267,162</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. The adoption had no impact on JHHS' results of operations or cash flows.

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

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13. Related Party Transactions

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

Revenue/(expense) transactions (in thousands):

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

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

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

Affiliate Notes Receivable:

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

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

14. Contracts, Commitments and Contingencies

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

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

JHHS and Affiliates

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

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

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

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

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

Asset Retirement Obligations

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

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

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

The Johns Hopkins Health System Corporation and Affiliates

Notes to Combined Financial Statements

for the years ended June 30, 2015 and 2014

The Johns Hopkins Hospital

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

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

Department of Defense Agreement - MSC

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

15. Functional Expenses

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

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

16. The Johns Hopkins Hospital Endowment Fund, Incorporated

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

The Johns Hopkins Health System Corporation and Affiliates
Notes to Combined Financial Statements
for the years ended June 30, 2015 and 2014

of June 30, 2015 and 2014, respectively. The Endowment Corporation's distributions from net assets to JHHS and its affiliates were \$10.8 million and \$12.9 million for the years ended June 30, 2015 and 2014, respectively, and were recorded as other revenue.

17. Subsequent Events

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

**SUPPLEMENTARY COMBINING INFORMATION
AND COMBINING SUPPLEMENTARY OPINION**



**REPORT OF INDEPENDENT AUDITORS
ON ACCOMPANYING COMBINING INFORMATION**

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

We have audited the combined financial statements of The Johns Hopkins Health System Corporation and Affiliates as of June 30, 2015 and 2014 and for the years then ended and our report thereon appears on page 1 of this document. Those audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 23, 2015

The Johns Hopkins Health System Corporation and Affiliates

Supplementary Combining Balance Sheets

June 30, 2015

(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Consolidated Entities	Sibley Memorial Hospital	Sibley Other Affiliates	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	Other	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
ASSETS															
Current assets:															
Cash and cash equivalents	\$ 95,642	\$ 6,500	\$ 14,030	\$ 17,463	\$ 36,020	\$ 3,422	\$ 132,653	\$ 56,990	\$ 696	\$ -	\$ 363,416	\$ 146,211	\$ 69,862	\$ -	\$ 579,489
Short-term investments	17,547	14,302	9,622	203	763	271	708	7,765	-	-	51,181	37,986	735	-	89,902
Assets whose use is limited - used for curr liabs	13,300	-	-	1,220	-	-	-	-	-	-	14,520	-	-	-	14,520
Patient accounts receivables, net of estimated uncollectibles of \$164,107	316,159	66,696	30,112	34,589	32,856	-	55,688	-	653	-	536,753	47,082	17,900	(23,910)	577,825
Due from others, current portion	6,916	2,639	398	4,797	4,019	1	-	1,608	72	-	20,450	5,168	4,091	-	29,709
Due from affiliates, current portion	17,242	706	87	212	-	-	13,510	44,320	49	(24,979)	51,147	25,287	3,971	(54,979)	25,426
Inventories of supplies	57,655	8,936	5,076	9,755	4,003	-	8,845	5,448	183	-	99,901	-	488	-	100,389
Estimated malpractice recoveries, current portion	21,371	2,980	984	1,144	3,858	-	2,668	-	-	-	33,005	800	3,539	-	37,344
Prepaid expenses and other current assets	16,412	1,620	1,894	2,873	5,222	39	10,718	2,237	688	-	41,703	21,346	2,498	-	65,547
Total current assets	562,244	104,379	62,203	72,256	86,741	3,733	224,790	118,368	2,341	(24,979)	1,212,076	283,880	103,084	(78,889)	1,520,151
Assets whose use is limited															
By long-term debt agreements for:															
Debt service reserve funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Construction fund	-	995	-	-	39,934	-	-	-	-	-	40,929	-	-	-	40,929
Future campus development	1,082	-	-	-	-	-	-	-	-	-	1,082	-	-	-	1,082
Pledges receivable	2,562	255	-	4,565	-	16,886	-	-	-	-	24,268	-	10,868	-	35,136
Other	-	7,327	-	23,759	4,966	36,790	11,881	-	-	-	84,723	-	14,707	-	99,430
By Board of Trustees	66,219	14,416	-	135,170	72,371	310,969	14,248	-	121,424	-	734,817	-	150	-	734,967
Interest in net assets of HHF/ACHF	-	-	16,688	-	-	-	73,728	-	-	-	90,416	-	-	(73,728)	16,688
Other	129,011	1,065	133	1,780	-	-	-	12,810	197	-	144,996	200	-	-	145,196
Total assets whose use is limited	198,874	24,058	16,821	165,274	117,271	364,645	99,857	12,810	121,621	-	1,121,231	200	25,725	(73,728)	1,073,428
Investments	601,915	86,494	102,896	-	321,083	11,467	234,656	183,662	5,645	-	1,547,818	65,937	105,222	(53,720)	1,665,257
Property, plant and equipment	2,211,459	494,500	248,580	244,525	489,192	198	534,220	103,593	83,716	-	4,409,983	35,528	121,669	-	4,567,180
Less: allowance for depreciation and amort	(831,470)	(284,637)	(98,790)	(143,086)	(75,289)	(22)	(151,125)	(57,587)	(40,125)	-	(1,682,131)	(14,700)	(77,224)	-	(1,774,055)
Total property, plant and equipment, net	1,379,989	209,863	149,790	101,439	413,903	176	383,095	46,006	43,591	-	2,727,852	20,828	44,445	-	2,793,125
Due from affiliates, net of current portion	203,361	1,071	785	1,257	1,333	-	995	699,811	-	(713,002)	195,611	472	309	(95,124)	101,268
Due from others, net of current portion	-	1,796	-	-	-	-	-	-	-	-	1,796	-	-	-	1,796
Estimated malpractice recoveries, net of current portion	17,914	2,498	825	959	3,234	-	4,847	-	-	-	30,277	671	2,967	-	33,915
Swap counterparty deposit	-	-	-	-	-	-	-	-	-	-	-	92,690	-	-	92,690
Other assets	10,795	47	44	18	3,987	-	11,766	10,657	2,136	-	39,450	5,372	4,227	-	49,049
Total assets	\$ 2,975,092	\$ 430,206	\$ 333,364	\$ 341,203	\$ 947,552	\$ 380,021	\$ 960,006	\$ 1,071,314	\$ 175,334	\$ (737,981)	\$ 6,876,111	\$ 377,360	\$ 378,669	\$ (301,461)	\$ 7,330,679
LIABILITIES AND NET ASSETS															
Current liabilities:															
Current portion of long-term debt and capital lease obligation															
\$ 23,220	\$ 6,648	\$ -	\$ 3,282	\$ -	\$ -	\$ 1,800	\$ 7,838	\$ 1,277	\$ -	\$ -	\$ 44,065	\$ 412	\$ -	\$ -	\$ 44,477
Accounts payable and accrued liabilities	192,789	48,883	24,400	32,833	46,680	2,199	60,091	67,082	1,573	-	476,170	45,551	31,472	-	553,193
Medical claims reserve	-	-	-	-	-	-	-	-	-	-	-	106,885	-	(32,301)	74,584
Deferred revenue	-	7,104	-	-	-	-	-	-	-	-	7,104	74,611	1,064	-	82,779
Current portion of due to affiliates	11,821	12,347	9,777	3,883	7,788	454	4,089	-	77	(24,979)	25,257	11,896	21,159	(46,588)	11,724
Accrued vacation	19,427	6,052	6,159	7,394	9,827	28	7,925	12,572	185	-	69,569	-	-	-	69,569
Advances from third-party payors	89,964	17,220	9,712	8,282	-	-	6,659	-	-	-	131,837	-	-	-	131,837
Current portion of est malpractice costs	22,597	3,162	1,056	1,168	8,940	-	4,802	-	-	-	41,725	-	3,751	-	45,476
Total current liabilities	359,818	101,416	50,744	56,842	73,235	2,681	85,366	87,492	3,112	(24,979)	795,727	239,355	57,446	(78,889)	1,013,639
Long-term debt and capital lease obligation, net of current portion															
705,986	64,038	-	45	-	-	-	95,650	724,012	31,079	-	1,620,810	629	-	-	1,621,439
Est malpractice costs, net of current portion	65,747	9,573	3,630	1,877	6,254	-	25,006	-	-	-	112,087	-	11,225	-	123,312
Net pension liability	266,945	129,760	852	2,180	2,184	-	-	134,621	-	-	536,542	-	-	-	536,542
Long-term note payable affiliate	96,495	59,022	154,081	46,865	251,969	-	92,993	11,577	-	(713,002)	-	1,455	93,832	(95,124)	163
Interest rate swap liabilities	159,880	8,491	15,039	2,376	-	-	27,501	-	-	-	213,287	-	-	-	213,287
Other long-term liabilities	30,753	3,103	2,312	2,813	15,887	26	1,798	2,683	810	-	60,185	2,828	4,020	-	67,033
Total liabilities	1,685,624	375,403	226,658	112,998	349,529	2,707	328,314	960,385	35,001	(737,981)	3,338,638	244,267	166,523	(174,013)	3,575,415
Net assets:															
Unrestricted	1,278,988	47,221	89,884	199,881	594,011	326,557	609,047	109,439	140,333	-	3,395,361	133,093	97,169	(115,564)	3,510,059
Temporarily restricted	10,480	4,057	13,422	17,405	2,167	37,548	9,187	1,490	-	-	95,756	-	91,347	(645)	186,458
Permanently restricted	-	3,525	3,400	10,919	1,845	13,209	13,458	-	-	-	46,356	-	23,630	(11,239)	58,747
Total net assets	1,289,468	54,803	106,706	228,205	598,023	377,314	631,692	110,929	140,333	-	3,537,473	133,093	212,146	(127,448)	3,755,264
Total liabilities and net assets	\$ 2,975,092	\$ 430,206	\$ 333,364	\$ 341,203	\$ 947,552	\$ 380,021	\$ 960,006	\$ 1,071,314	\$ 175,334	\$ (737,981)	\$ 6,876,111	\$ 377,360	\$ 378,669	\$ (301,461)	\$ 7,330,679

The Johns Hopkins Health System Corporation and Affiliates

Supplementary Combining Balance Sheets

June 30, 2014

(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Consolidated Entities	Sibley Memorial Hospital	Sibley Other Affiliates	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	Other	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
ASSETS															
Current assets:															
Cash and cash equivalents	\$ 64,095	\$ 13,911	\$ 13,282	\$ 11,516	\$ 37,583	\$ 2,165	\$ 123,464	\$ 61,385	\$ 634	\$ -	\$ 328,035	\$ 168,775	\$ 72,892	\$ -	\$ 569,702
Short-term investments	44,018	11,519	8,479	203	757	482	707	13,078	-	-	79,243	37,917	745	-	117,905
Assets whose use is limited - used for curr liabs	13,635	-	-	1,597	1,050	-	-	-	-	-	16,282	-	-	-	16,282
Patient accounts receivables, net of estimated uncollectibles of \$158,664	287,163	60,007	31,006	39,193	32,305	-	60,031	-	770	-	510,475	17,101	14,476	(19,110)	522,942
Due from others, current portion	8,398	4,425	297	3,873	6,548	-	-	1,467	111	-	25,119	6,979	3,866	-	35,964
Due from affiliates, current portion	13,683	713	207	142	4,200	-	10,181	34,757	72	(26,492)	37,463	26,048	4,817	(47,564)	20,764
Inventories of supplies	49,849	7,534	4,650	8,529	3,512	-	8,529	4,648	165	-	87,416	-	452	-	87,868
Estimated malpractice recoveries, current portion	60,656	3,677	1,104	944	2,259	-	-	18,995	-	-	87,635	788	136,479	-	224,902
Prepaid expenses and other current assets	10,672	1,913	2,190	3,545	4,900	26	10,280	1,966	725	-	36,217	15,536	2,225	-	53,978
Total current assets	552,169	103,699	61,215	69,542	93,114	2,673	213,192	136,296	2,477	(26,492)	1,207,885	273,144	235,952	(66,674)	1,650,307
Assets whose use is limited															
By long-term debt agreements for:															
Debt service reserve funds	-	-	-	-	4,955	-	-	-	-	-	4,955	-	-	-	4,955
Construction fund	-	25,555	-	-	125,256	-	-	-	-	-	150,811	-	-	-	150,811
Future campus development	1,113	-	-	-	-	-	-	-	-	-	1,113	-	-	-	1,113
Pledges receivable	3,858	298	-	4,407	-	10,894	-	-	-	-	19,457	-	8,620	-	28,077
Other	-	6,699	-	25,056	5,260	31,680	11,817	-	-	-	80,512	-	15,398	-	95,910
By Board of Trustees	65,214	4,279	-	139,030	182,043	313,208	14,719	-	122,573	-	841,066	-	150	-	841,216
Interest in net assets of HHF/ACHF	-	-	13,644	-	-	-	72,803	-	-	-	86,447	-	-	(72,803)	13,644
Other	5,489	1,171	133	1,615	-	-	-	12,185	203	-	20,796	100	-	-	20,896
Total assets whose use is limited	75,674	38,002	13,777	170,108	317,514	355,782	99,339	12,185	122,776	-	1,205,157	100	24,168	(72,803)	1,156,622
Investments	702,333	76,823	81,406	50	170,038	10,723	242,611	168,289	4,400	-	1,456,673	65,446	90,458	(35,962)	1,576,615
Property, plant and equipment	2,191,339	467,830	245,757	244,775	383,428	199	519,221	100,346	87,836	-	4,240,731	26,352	118,964	-	4,386,047
Less: allowance for depreciation and amort	(757,616)	(275,140)	(85,872)	(144,724)	(61,891)	(14)	(119,262)	(52,152)	(42,110)	-	(1,538,781)	(10,451)	(71,948)	-	(1,621,180)
Total property, plant and equipment, net	1,433,723	192,690	159,885	100,051	321,537	185	399,959	48,194	45,726	-	2,701,950	15,901	47,016	-	2,764,867
Due from affiliates, net of current portion	193,455	1,004	252	406	430	-	323	486,420	-	(506,339)	175,951	944	309	(86,316)	90,888
Due from others, net of current portion	-	2,796	-	-	-	-	-	-	-	-	2,796	-	-	-	2,796
Estimated malpractice recoveries, net of current portion	25,252	4,096	1,230	1,052	2,518	-	3,319	-	-	-	37,467	878	3,915	-	42,260
Swap counterparty deposit	-	-	-	-	-	-	-	-	-	-	-	-	80,330	-	80,330
Other assets	10,920	56	47	39	4,515	-	11,815	7,892	2,219	-	37,503	5,968	5,905	-	49,376
Total assets	\$ 2,993,526	\$ 419,166	\$ 317,812	\$ 341,248	\$ 909,666	\$ 369,363	\$ 970,558	\$ 859,276	\$ 177,598	\$ (532,831)	\$ 6,825,382	\$ 362,381	\$ 488,053	\$ (261,755)	\$ 7,414,061
LIABILITIES AND NET ASSETS															
Current liabilities:															
Current portion of long-term debt and capital lease obligation															
	\$ 76,872	\$ 6,604	\$ -	\$ 4,946	\$ 1,050	\$ -	\$ 4,941	\$ 2,887	\$ 1,083	\$ -	\$ 98,383	\$ 322	\$ -	\$ -	\$ 98,705
Accounts payable and accrued liabilities	182,170	53,012	22,921	31,396	29,501	131	49,397	69,186	1,277	-	438,991	43,891	28,516	-	511,398
Medical claims reserve	-	-	-	-	-	-	-	-	-	-	-	102,531	-	(27,904)	74,627
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	87,837	724	-	88,561
Current portion of due to affiliates	14,630	5,872	8,975	5,253	322	2,329	1,416	3,566	49	(26,492)	15,920	12,360	20,600	(38,770)	10,110
Accrued vacation	18,995	6,225	5,384	6,834	8,396	46	7,962	11,359	184	-	65,385	-	-	-	65,385
Advances from third-party payors	96,765	16,847	9,269	7,595	-	-	9,636	-	-	-	140,112	-	-	-	140,112
Current portion of est malpractice costs	61,705	3,834	1,168	963	4,936	-	6,614	18,995	-	-	98,215	-	136,670	-	234,885
Total current liabilities	451,137	92,394	47,717	56,987	44,205	2,506	79,966	105,993	2,593	(26,492)	857,006	246,941	186,510	(66,674)	1,223,783
Long-term debt and capital lease obligation, net of current portion															
Est malpractice costs, net of current portion	717,321	69,510	-	3,401	67,982	-	206,078	535,505	32,359	-	1,632,156	960	-	-	1,633,116
Net pension liability	67,990	10,488	3,850	3,143	5,388	-	24,194	-	-	-	115,053	-	11,694	-	126,747
Long-term note payable affiliate	199,400	119,535	426	1,827	6,103	-	-	121,544	-	-	448,835	-	-	-	448,835
Interest rate swap liabilities	48,250	59,612	158,058	48,575	188,095	-	-	3,749	-	(506,339)	-	4,077	82,239	(86,316)	-
Other long-term liabilities	140,288	9,314	12,864	2,991	-	-	25,164	-	-	-	190,621	-	-	-	190,621
Total liabilities	29,640	3,006	1,846	3,365	12,524	-	1,924	2,161	911	-	55,377	2,628	5,428	-	63,433
Net assets:	1,654,026	363,859	224,761	120,289	324,297	2,506	337,326	768,952	35,863	(532,831)	3,299,048	254,606	285,871	(152,990)	3,686,535
Unrestricted															
Temporarily restricted	1,328,871	48,310	79,274	191,496	581,173	327,641	609,852	88,927	141,735	-	3,397,279	107,775	92,471	(96,041)	3,501,484
Permanently restricted	10,629	3,472	10,559	18,544	2,352	26,106	9,306	1,397	-	-	82,365	-	85,998	(912)	167,451
Total net assets	1,339,500	55,307	93,051	220,959	585,369	366,857	633,232	90,324	141,735	-	3,526,334	107,775	202,182	(108,765)	3,727,526
Total liabilities and net assets	\$ 2,993,526	\$ 419,166	\$ 317,812	\$ 341,248	\$ 909,666	\$ 369,363	\$ 970,558	\$ 859,276	\$ 177,598	\$ (532,831)	\$ 6,825,382	\$ 362,381	\$ 488,053	\$ (261,755)	\$ 7,414,061

The Johns Hopkins Health System Corporation and Affiliates
Supplementary Combining Statements of Operations and Changes in Net Assets
June 30, 2015
(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Consolidated Entities	Sibley Memorial Hospital	Sibley Other Affiliates	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	Other	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
Operating revenues:															
Net patient service revenue before provision for bad debts	\$ 1,879,981	\$ 539,599	\$ 251,579	\$ 258,603	\$ 262,765	\$ -	\$ 415,086	\$ -	\$ 9,938	\$ -	\$ 3,617,551	\$ 1,543,328	\$ 649,304	\$ (818,807)	\$ 4,991,376
Provision for bad debts	(19,830)	(23,763)	(8,689)	(7,755)	(10,151)	-	(6,668)	-	(64)	-	(76,920)	(5,163)	(11,688)	-	(93,771)
Net patient service revenue	1,860,151	515,836	242,890	250,848	252,614	-	408,418	-	9,874	-	3,540,631	1,538,165	637,616	(818,807)	4,897,605
Other revenue	224,852	58,640	4,916	20,645	38,197	2,005	51,306	267,873	8,195	(188,571)	488,058	63,216	150,251	(136,146)	565,379
Investment income	11,081	1,875	1,779	1,676	5,702	5,399	6,804	75,142	1,418	-	110,676	1,443	11,072	(53,818)	69,373
Net assets released from restrict used for operations	645	553	-	1,936	1,242	94	356	61	-	-	4,887	-	2,845	-	7,732
Total operating revenues	2,096,729	576,904	249,585	275,105	297,755	7,498	466,684	343,076	19,487	(188,571)	4,144,252	1,602,824	801,784	(1,008,771)	5,540,089
Operating expenses:															
Salaries, wages and benefits	770,776	247,023	111,078	116,317	142,636	1,014	213,534	152,631	4,033	-	1,759,042	104,613	274,227	(10,008)	2,127,874
Purchased services	609,569	189,319	61,659	66,255	62,513	954	98,769	129,709	6,491	(169,912)	1,055,326	1,419,191	491,296	(944,945)	2,020,868
Supplies and other	499,233	97,412	41,972	63,664	64,120	53	67,369	2,508	2,574	-	838,905	7,888	24,367	-	871,160
Interest	20,226	1,201	5,212	824	3,091	-	5,034	16,791	2,901	(18,659)	36,621	-	91	-	36,712
Depreciation and amortization	128,456	25,504	15,555	15,820	18,670	8	34,386	10,336	3,155	-	251,890	5,104	7,596	-	264,590
Total operating expenses	2,028,260	560,459	235,476	262,880	291,030	2,029	419,092	311,975	19,154	(188,571)	3,941,784	1,536,796	797,577	(954,953)	5,321,204
Income from operations	68,469	16,445	14,109	12,225	6,725	5,469	47,592	31,101	333	-	202,468	66,028	4,207	(53,818)	218,885
Non-operating revenues and expenses:															
Interest expense on swap agreements	(19,187)	(2,570)	(1,534)	(951)	-	-	(3,351)	-	-	-	(27,593)	-	-	-	(27,593)
Change in fair value of swap agreements	(19,593)	823	(2,176)	615	-	-	(2,335)	-	-	-	(22,666)	-	-	-	(22,666)
Change in realized and unrealized gains (losses) on investments	(10,465)	(1,076)	(1,200)	(2,075)	6,811	6,261	(16,357)	(528)	(1,697)	-	(20,326)	-	(4,678)	-	(25,004)
Other non-operating expenses	(8,012)	-	-	-	(10,826)	1	(14,571)	(2,724)	-	-	(36,132)	-	(22)	(1,765)	(37,919)
Excess of revenues over (under) expenses before noncontrolling interests	11,212	13,622	9,199	9,814	2,710	11,731	10,978	27,849	(1,364)	-	95,751	66,028	(493)	(55,583)	105,703
Noncontrolling interests	-	-	-	-	-	-	-	-	89	-	89	(3,442)	533	(6,768)	(11,588)
Excess of revenues over (under) expenses	11,212	13,622	9,199	9,814	2,710	11,731	10,978	27,849	(1,275)	-	95,840	62,586	40	(64,351)	94,115
Contributions (to) from affiliates	-	-	(568)	(75)	(75)	-	(11,833)	6,473	11	-	(6,067)	(40,710)	5,131	36,060	(5,586)
Change in funded status of defined benefit plans	(64,130)	(14,711)	(421)	(2,267)	(2,612)	-	-	(14,012)	-	-	(98,153)	-	-	-	(98,153)
Net assets released from restrictions used for purchases of property, plant, and equipment	3,035	-	2,400	913	-	-	50	229	-	-	6,627	-	60	-	6,687
Noncontrolling interests	-	-	-	-	-	-	-	-	(89)	-	(89)	3,442	(533)	8,768	11,588
Other	-	-	-	-	12,721	(12,721)	-	(27)	(49)	-	(76)	-	-	-	(76)
(Decrease) increase in unrestricted net assets	(49,883)	(1,089)	10,610	8,385	12,744	(990)	(805)	20,512	(1,402)	-	(1,918)	25,318	4,698	(19,523)	8,575
Changes in temporarily restricted net assets:															
Gifts, grants and bequests	3,531	1,138	2,401	1,710	-	12,593	554	-	-	-	22,310	-	8,254	-	30,564
Net change in HHF and ACF	-	-	2,862	-	-	-	(267)	-	-	-	2,595	-	-	267	2,862
Net assets released from restrictions used for purchases of property, plant, and equipment	(3,035)	-	(2,400)	(913)	-	-	(50)	(229)	-	-	(6,627)	-	(60)	-	(6,687)
Net assets released from restrict used for operations	(645)	(553)	-	(1,936)	(1,242)	(94)	(356)	(61)	-	-	(4,887)	-	(2,845)	-	(7,732)
Other	-	-	-	-	1,152	(1,152)	-	-	-	-	-	-	-	-	-
(Decrease) increase in temporarily restricted net assets	(149)	585	2,863	(1,139)	(90)	11,347	(119)	93	-	-	13,391	-	5,349	267	19,007
Changes in permanently restricted net assets:															
Gifts, grants and bequests	-	-	-	-	-	100	(42)	-	-	-	58	-	(83)	(1)	(26)
Net change in HHF and ACF	-	-	182	-	-	-	(574)	-	-	-	(392)	-	-	574	182
Increase (decrease) in permanently restricted net assets	-	-	182	-	-	100	(616)	-	-	-	(334)	-	(83)	573	156
(Decrease) increase in net assets	(50,032)	(504)	13,655	7,246	12,654	10,457	(1,540)	20,605	(1,402)	-	11,139	25,318	9,964	(18,683)	27,738
Net assets at beginning of year	1,339,500	55,307	93,051	220,959	585,369	366,857	633,232	90,324	141,735	-	3,526,334	107,775	202,182	(108,765)	3,727,526
Net assets at end of year	\$ 1,289,468	\$ 54,803	\$ 106,706	\$ 228,205	\$ 598,023	\$ 377,314	\$ 631,692	\$ 110,929	\$ 140,333	\$ -	\$ 3,537,473	\$ 133,093	\$ 212,146	\$ (127,448)	\$ 3,755,264

The Johns Hopkins Health System Corporation and Affiliates
Supplementary Combining Statements of Operations and Changes in Net Assets
June 30, 2014
(in thousands)

	The Johns Hopkins Hospital	Johns Hopkins Bayview Medical Center, Inc.	Howard County General Hospital, Inc.	Suburban Hospital, Inc. and Consolidated Entities	Sibley Memorial Hospital	Sibley Other Affiliates	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	Other	Eliminations	Combined Johns Hopkins Health System Corporation and Affiliates
Operating revenues:															
Net patient service revenue before provision for bad debts	\$ 1,862,007	\$ 523,812	\$ 242,532	\$ 251,540	\$ 231,731	\$ -	\$ 387,822	\$ -	\$ 10,213	\$ -	\$ 3,509,657	\$ 1,369,736	\$ 609,968	\$ (762,713)	\$ 4,726,648
Provision for bad debts	(58,044)	(31,390)	(9,934)	(8,267)	(8,744)	-	(6,149)	-	(66)	-	(122,594)	(4,630)	(14,140)	-	(141,364)
Net patient service revenue	1,803,963	492,422	232,598	243,273	222,987	-	381,673	-	10,147	-	3,387,063	1,365,106	595,828	(762,713)	4,585,284
Other revenue	180,684	46,830	5,107	17,807	37,708	865	38,082	231,134	8,085	(169,135)	397,167	51,787	128,695	(98,424)	479,225
Investment income	9,764	1,687	1,084	1,861	6,672	5,367	4,138	82,701	1,530	-	114,804	1,317	2,247	(65,158)	53,210
Net assets released from restrict used for operations	716	769	-	1,702	904	109	971	(57)	-	-	5,114	-	2,692	-	7,806
Total operating revenues	1,995,127	541,708	238,789	264,643	268,271	6,341	424,864	313,778	19,762	(169,135)	3,904,148	1,418,210	729,462	(926,295)	5,125,525
Operating expenses:															
Salaries, wages and benefits	743,306	243,882	114,262	118,525	139,184	1,133	205,273	129,131	4,222	(1,208)	1,697,710	94,487	253,701	(9,908)	2,035,990
Purchased services	576,095	169,718	52,478	59,914	56,844	2,133	89,632	118,991	6,841	(152,546)	980,100	1,228,539	456,532	(851,229)	1,813,942
Supplies and other	437,553	90,667	41,457	67,363	49,212	91	62,197	2,377	2,714	-	753,631	7,131	22,731	-	783,493
Interest	20,971	277	5,365	960	3,412	-	5,785	14,729	2,823	(15,381)	38,941	-	97	-	39,038
Depreciation and amortization	131,105	23,326	15,985	15,256	20,142	15	36,529	8,806	3,456	-	254,620	3,787	7,819	-	266,226
Total operating expenses	1,909,030	527,870	229,547	262,018	268,794	3,372	399,416	274,034	20,056	(169,135)	3,725,002	1,333,944	740,880	(861,137)	4,938,689
Income from operations	86,097	13,838	9,242	2,625	(523)	2,969	25,448	39,744	(294)	-	179,146	84,266	(11,418)	(65,158)	186,836
Non-operating revenues and expenses:															
Interest expense on swap agreements	(19,250)	(2,733)	(1,533)	(951)	-	-	(3,365)	-	-	-	(27,832)	-	-	-	(27,832)
Change in fair value of swap agreements	(5,357)	875	(598)	542	-	-	(1,863)	-	-	-	(6,201)	-	-	-	(6,201)
Change in realized and unrealized gains (losses) on investments	53,974	3,115	3,017	14,185	43,835	44,058	34,689	17	11,395	-	208,285	-	10,663	-	218,948
Other non-operating expenses	(7,112)	-	(242)	-	-	-	(2,135)	(2,724)	-	-	(12,213)	-	(1,214)	(1,053)	(14,480)
Excess of revenues over (under) expenses before noncontrolling interests	108,352	15,095	9,886	16,401	43,312	47,027	52,974	37,037	11,101	-	341,185	84,266	(1,964)	(66,211)	357,271
Noncontrolling interests	-	-	-	-	-	-	-	-	138	-	138	(8,114)	5	(10,994)	(18,965)
Excess of revenues over (under) expenses	108,352	15,095	9,886	16,401	43,312	47,027	52,974	37,037	11,239	-	341,323	76,152	(1,964)	(77,205)	338,306
Contributions from (to) affiliates	3,904	(191)	(702)	(483)	-	-	(20,279)	(797)	(847)	-	(19,395)	(67,082)	17,819	60,390	(8,268)
Change in funded status of defined benefit plans	(11,939)	(17,376)	1,308	3,716	(3,278)	-	-	(41,153)	-	-	(68,722)	-	-	-	(68,722)
Net assets released from restrictions used for purchases of property, plant, and equipment	2,058	-	4,157	72	-	-	-	8	-	-	6,295	-	-	-	6,295
Noncontrolling interests	-	-	-	-	-	-	-	-	(138)	-	(138)	8,114	(5)	10,994	18,965
Other	-	-	-	-	9,563	(9,563)	-	30	(49)	-	(19)	-	(84)	-	(103)
Increase (decrease) in unrestricted net assets	102,375	(2,472)	14,649	19,706	49,597	37,464	32,695	(4,875)	10,205	-	259,344	17,184	15,766	(5,821)	286,473
Changes in temporarily restricted net assets:															
Gifts, grants and bequests	(7)	(184)	4,157	3,814	10	5,030	654	558	-	-	14,032	-	12,468	-	26,500
Net change in HHF and ACF	-	-	(417)	-	-	-	(93)	-	-	-	(510)	-	-	93	(417)
Net assets released from restrictions used for purchases of property, plant, and equipment	(2,058)	-	(4,157)	(72)	-	-	-	(8)	-	-	(6,295)	-	-	-	(6,295)
Net assets released from restrict used for operations	(716)	(769)	-	(1,702)	(904)	(109)	(971)	57	-	-	(5,114)	-	(2,692)	-	(7,806)
Other	(2,405)	-	-	-	818	(818)	-	-	-	-	(2,405)	-	-	-	(2,405)
(Decrease) increase in temporarily restricted net assets	(5,186)	(953)	(417)	2,040	(76)	4,103	(410)	607	-	-	(292)	-	9,776	93	9,577
Changes in permanently restricted net assets:															
Gifts, grants and bequests	-	-	-	60	-	-	70	-	-	-	130	-	1,581	-	1,711
Net change in HHF and ACF	-	-	158	-	-	-	993	-	-	-	1,151	-	-	(993)	158
Increase in permanently restricted net assets	-	-	158	60	-	-	1,063	-	-	-	1,281	-	1,581	(993)	1,869
Increase (decrease) in net assets	97,189	(3,425)	14,390	21,806	49,521	41,567	33,348	(4,268)	10,205	-	260,333	17,184	27,123	(6,721)	297,919
Net assets at beginning of year	1,242,311	58,732	78,661	199,153	535,848	325,290	599,884	94,592	131,530	-	3,266,001	90,591	175,059	(102,044)	3,429,607
Net assets at end of year	\$ 1,339,500	\$ 55,307	\$ 93,051	\$ 220,959	\$ 585,369	\$ 366,857	\$ 633,232	\$ 90,324	\$ 141,735	\$ -	\$ 3,526,334	\$ 107,775	\$ 202,182	\$ (108,765)	\$ 3,727,526



**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY FINANCIAL INFORMATION**

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

We have audited the combined financial statements of The Johns Hopkins Health System Corporation and Affiliates as of June 30, 2015 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the combined 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 combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 23, 2015

The Johns Hopkins Health System Corporation and Affiliates
Hopkins Elder Plus - Pace Program
Statement of Operations
for the year ended June 30, 2015
(in thousands)

Revenue	
Output revenue	\$ 11,776
	<u>11,776</u>
Total revenue	<u>11,776</u>
Expenses	
Salaries, wages and benefits	3,514
Purchased services	6,646
Supplies and other	1,737
Depreciation	10
	<u>11,907</u>
Total expenses	<u>11,907</u>
Excess of revenue over (under) expenses	<u>\$ (131)</u>