



JOHNS HOPKINS UNIVERSITY

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)



KPMG LLP
1 East Pratt Street
Baltimore, MD 21202-1128

Independent Auditors' Report

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying balance sheets of The Johns Hopkins University (the University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Johns Hopkins University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 26, 2011

JOHNS HOPKINS UNIVERSITY

Balance Sheets

June 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 148,751	165,914
Accounts receivable, net	523,669	455,395
Contributions receivable, net	295,412	163,866
Prepaid expenses, deferred charges, and other assets	193,867	134,046
Student loans receivable, net	33,260	33,732
Investments	4,311,032	3,798,503
Investment in property and equipment, net	2,058,644	2,007,795
Interests in trusts and endowment funds held by others	106,019	94,171
	<hr/>	<hr/>
Total assets	\$ 7,670,654	6,853,422
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Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 450,441	405,390
Deferred revenues and other liabilities	405,940	366,865
Payables and deferred revenues under split interest agreements	68,731	63,643
Debt	1,454,207	1,518,688
Pension and postretirement obligations	162,214	291,831
Other long-term liabilities	177,076	170,256
Endowment and similar funds held for others	489,252	399,981
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Total liabilities	3,207,861	3,216,654
	<hr/>	<hr/>
Net assets:		
Unrestricted	1,997,486	1,491,376
Temporarily restricted	1,051,135	880,907
Permanently restricted	1,414,172	1,264,485
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Total net assets	4,462,793	3,636,768
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Total liabilities and net assets	\$ 7,670,654	6,853,422
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See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statements of Activities

June 30, 2011 and 2010

(In thousands)

	2011	2010
Changes in unrestricted net assets from operating activities:		
Revenues:		
Tuition and fees	\$ 672,433	618,272
Less financial aid	230,582	207,292
Tuition and fees, net of financial aid	441,851	410,980
Grants, contracts, and similar agreements	2,551,874	2,390,824
Clinical services	451,400	416,697
Reimbursements from affiliated institutions	361,187	354,394
Contributions	92,537	72,183
Investment return	154,552	156,033
Maryland State aid	16,662	16,255
Sales and services of auxiliary enterprises	86,035	87,736
Other revenues	128,558	95,321
Net assets released from restrictions	85,325	102,769
Total operating revenues	4,369,981	4,103,192
Expenses:		
Compensation and benefits	2,497,194	2,340,088
Contractual services	943,605	864,736
Supplies, materials, and other	494,511	483,560
Depreciation and amortization	179,138	176,618
Travel	99,493	92,107
Interest	57,870	62,269
Total operating expenses	4,271,811	4,019,378
Excess of revenues over expenses from operating activities	98,170	83,814

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Statements of Activities

June 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets from nonoperating activities:		
Investment return	\$ 173,061	105,578
Change in benefit plans funded status, excluding benefit cost	129,617	(121,811)
Net assets released from restrictions	95,335	16,448
Other, net	9,927	(18,081)
	<u>407,940</u>	<u>(17,866)</u>
Change in unrestricted net assets from nonoperating activities		
Total changes in unrestricted net assets	<u>506,110</u>	<u>65,948</u>
Changes in temporarily restricted net assets:		
Contributions	187,676	54,013
Investment return	163,212	116,558
Net assets released from restrictions	(180,660)	(119,217)
	<u>170,228</u>	<u>51,354</u>
Total changes in temporarily restricted net assets		
Changes in permanently restricted net assets:		
Contributions	118,196	42,413
Investment return	31,491	(3,379)
Other, net	—	1,744
	<u>149,687</u>	<u>40,778</u>
Total changes in permanently restricted net assets		
Total changes in net assets	<u>826,025</u>	<u>158,080</u>
Net assets at beginning of year	<u>3,636,768</u>	<u>3,478,688</u>
Net assets at end of year	<u>\$ 4,462,793</u>	<u>3,636,768</u>

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Cash flows from operating activities:		
Changes in net assets	\$ 826,025	158,080
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation, amortization, and loss on asset disposals	180,457	177,296
Contributions restricted for long-term investment	(108,831)	(75,865)
Net realized and unrealized gains from investments	(480,827)	(333,047)
Net unrealized (gains) losses from swaps	(14,167)	14,710
Change in benefit plans funded status	(129,617)	121,811
Changes in operating assets and liabilities:		
Accounts receivable, net	(57,804)	42,628
Contributions receivable, net	(131,546)	64,128
Prepaid expenses, deferred charges, and other assets	(34,227)	(16,364)
Accounts payable and accrued expenses	31,021	668
Deferred revenues and other liabilities	53,241	21,336
Investments, interests, and payables related to trusts and split-interest agreements	13,609	11,336
Other long-term liabilities	(2,821)	(3,274)
Net cash provided by operating activities	144,513	183,443
Cash flows from investing activities:		
Purchases of investments	(2,936,664)	(2,425,678)
Proceeds from sales and maturities of investments	2,968,877	2,347,437
Purchases of property and equipment	(228,022)	(193,427)
Disbursements for student loans	(4,959)	(2,421)
Repayments of student loans	5,431	4,704
Advances to affiliates	(38,555)	(16,650)
Joint venture dividends net of capital contributions	10,759	1,973
Change in deposits with bond trustees	2,202	8,812
Change in endowments held for others	14,629	6,371
Net cash used in investing activities	(206,302)	(268,879)
Cash flows from financing activities:		
Contributions restricted for long-term investment	108,831	75,865
Proceeds from borrowings	—	21,928
Repayment of commercial paper	(38,880)	—
Scheduled debt payments	(25,325)	(34,562)
Net cash provided by financing activities	44,626	63,231
Net decrease in cash and cash equivalents	(17,163)	(22,205)
Cash and cash equivalents at beginning of year	165,914	188,119
Cash and cash equivalents at end of year	\$ 148,751	165,914

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2011 and 2010

(1) Basis of Presentation and Summary of Significant Accounting Policies

(a) General

The Johns Hopkins University (the University) is a private, nonprofit institution that provides education and related services to students and others, research and related services to sponsoring organizations, and professional medical services to patients. The University is based in Baltimore, Maryland, but also maintains facilities and operates education programs elsewhere in Maryland, in Washington, D.C. and, on a more limited scale, in certain foreign locations.

Education and related services (e.g., room, board, etc.) are provided to approximately 21,000 students, including 13,000 full-time students and 8,000 part-time students, and produced approximately 12% of the University's net operating revenues in fiscal 2011 and 2010. The full-time students are divided about equally between graduate level (including postdoctoral) and undergraduate level. Students are drawn from a broad geographic area, including most of the states in the United States and numerous foreign countries. The majority of the part-time students are graduate level students from the Baltimore-Washington, D.C. area.

Research and related services (e.g., research training) are provided through approximately 1,900 government and private sponsors. Grants, contracts, and similar agreements produced approximately 58% of the University's operating revenues in fiscal 2011 and 2010. Approximately 89% and 88% of these revenues come from departments and agencies of the United States government in fiscal 2011 and 2010, respectively. Major government sponsors include the Department of Health and Human Services, the Department of Defense, the National Aeronautics and Space Administration, and the Agency for International Development.

Professional medical services are provided by members of the University's faculty to patients at The Johns Hopkins Hospital (the Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced approximately 10% of the University's operating revenues in fiscal 2011 and 2010. The patients are predominantly from the Baltimore area, other parts of Maryland or surrounding states.

(b) Basis of Presentation

The financial statements include the accounts of the various academic and support divisions, the Applied Physics Laboratory (APL), the Johns Hopkins University Press and affiliated organizations, which are controlled by the University, including Jhpiego Corporation and Peabody Institute of the City of Baltimore. All significant interentity activities and balances are eliminated for financial reporting purposes. Investments in organizations that the University does not control, including Dome Corporation, FSK Land Corporation, Johns Hopkins Healthcare LLC, Johns Hopkins Home Care Group, Inc., Johns Hopkins Medical Institutions Utilities LLC (JHMI Utilities LLC), and Johns Hopkins Medicine International LLC are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2011 and 2010

The most significant estimates and judgments affecting the University's financial statements relate to fair values of nonmarketable investments, allowances for uncollectible accounts and contributions receivable, provisions for self-insured liabilities and property damage claims, payables and deferred revenues under split-interest agreements, and the actuarial assumptions used to determine obligations under defined benefit pension and postretirement plans.

Certain amounts for fiscal 2010 have been reclassified to conform to the presentation for fiscal 2011.

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

- *Unrestricted* – Net assets that are not subject to donor-imposed stipulations.
- *Temporarily restricted* – Net assets subject to donor-imposed stipulations that will be met by actions of the University and/or the passage of time.
- *Permanently restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes, primarily divisional and departmental support and student financial aid.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Under Maryland law, appreciation on donor-restricted endowments is classified as temporarily restricted until appropriated for expenditure. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions, which reflect reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are placed in service.

(c) *Contributions*

Contributions, including unconditional promises to give, are recognized in the appropriate category of net assets in the period received, except that contributions which impose restrictions that are met in the same fiscal year are included in unrestricted revenues. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures, and similar assets held as part of collections are not recognized or capitalized.

Allowance is made for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Estimated collectible contributions to be received after one year are discounted using a risk-adjusted rate for the expected period of collection. Amortization of the discount is included in contributions revenue.

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Notes to Financial Statements

June 30, 2011 and 2010

(d) Cash and Cash Equivalents

Short-term investments with maturities at dates of purchase of 90 days or less are classified as cash equivalents, except that any such investments purchased with funds on deposit with bond trustees, with funds held in trusts by others or by external endowment investment managers are classified with the respective assets. Cash equivalents include short-term U.S. Treasury securities and other highly liquid investments where the carrying amount approximates fair value.

(e) Clinical Services

Clinical services revenues are recognized in the period in which services are rendered and are reported at the estimated net realizable amounts from patients, third-party payors, and others. Allowance is made for uncollectible accounts based primarily on past collection experience and analyses of outstanding receivables. Contractual allowances are estimated based on actual claims paid by third-party payors.

(f) Investments and Investment Return

Investments in United States government and agency obligations, debt securities, and directly held United States and international equities are stated at fair value, which are determined primarily based on quoted market prices. Investments in private equity and venture capital, certain real property assets, absolute return funds, and public equities held through commingled funds (collectively, alternative investments and commingled funds) are stated at estimated fair value based on the funds' net asset values (NAV), or their equivalents, as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2011 and 2010, the University had no plans or intentions to sell investments at amounts different from NAV. The fair values estimated by the general partners or investment managers are reviewed and evaluated by the University's investment office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant. Investments in certain real property assets are recorded at fair value based upon independent third-party appraisals.

Investments are exposed to certain risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, changes in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements. Liquidity risk represents the possibility that the University may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the University was forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

Investment return included in operating revenues consists of income and realized gains and losses on investments of working capital and nonpooled endowment funds (except where restricted by donors) and the annual payout for pooled endowment and similar funds approved by the Board of Trustees. Unrealized gains and losses of working capital investments and nonpooled endowment funds, any difference between the total return recognized and the payout for pooled endowment and similar funds, and income and realized gains restricted by donors are reported as nonoperating activities.

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Notes to Financial Statements

June 30, 2011 and 2010

(g) *Investment in Property and Equipment*

Investment in property and equipment is stated at cost, if purchased or at estimated fair value at the date of gift, if donated, less accumulated depreciation and amortization. Depreciation of buildings, equipment, and library collections and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the assets. Land and certain historic buildings are not subject to depreciation. Title to certain equipment purchased using funds provided by government sponsors is vested in the University. Such equipment is included in investment in property and equipment. Certain equipment used by the APL in connection with its performance under agreements with the United States government is owned by the government. These facilities and equipment are not included in the balance sheets; however, the University is accountable to the government for them. Repairs and maintenance costs are expensed as incurred. Costs relating to retirement, disposal, or abandonment of assets where the University has a legal obligation to perform certain activities are accrued using either site-specific surveys or square foot estimates as appropriate.

Costs of purchased software are capitalized along with internal and external costs incurred during the application development stage (i.e., from the time the software is selected until it is ready for use). Capitalized costs are amortized on a straight-line basis over the expected life of the software. Computer software maintenance costs are expensed as incurred.

(h) *Split-Interest Agreements and Interests in Trusts*

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuity agreements for which the University serves as trustee. Assets held under these arrangements are included in investments and are recorded at fair value. Contribution revenues are recognized at the date the trusts or agreements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts, and other changes in estimates of future benefits. Assets and liabilities under the University's charitable gift annuity agreements were \$53,653,000 classified in investments and \$27,030,000 classified in payables and deferred revenues under split-interest agreements, respectively, as of June 30, 2011.

The University is also the beneficiary of certain perpetual and remainder trusts held and administered by others. The fair values of the trusts are recognized as assets and contribution revenues at the dates the trusts are established. The assets held in these trusts are included in interests in trusts and endowment funds held by others and are adjusted for changes in the fair value of the trust assets through nonoperating investment return.

(i) *Affiliated Institutions*

The University has separate administrative agreements for the exchange of services with the Hospital and other medical and educational institutions. Costs incurred by the University in providing services to these institutions and the related reimbursements are reported as operating expenses and revenues, respectively, in the appropriate classifications.

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Notes to Financial Statements

June 30, 2011 and 2010

The University holds several endowment and similar funds, which are designated for purposes or activities that are carried out by the Hospital and The Johns Hopkins Hospital Endowment Fund Incorporated (JHHEFI). The assets of these funds are included in investments and the related income is paid to the Hospital and JHHEFI. The carrying values of the funds are adjusted for earnings from and changes in the fair values of the investments and distributions paid and are classified as liabilities on the balance sheets as endowment and similar funds held for others.

(j) Insurance

The University, together with other institutions, has formed captive insurance companies that arrange and provide professional liability, general liability, and property damage insurance for their shareholders. Defined portions of claims paid by these companies are self-insured. The University's claims liabilities are recognized as claims are incurred using actuarial studies based upon historical claims data, cost trends, and other actuarial estimates. Insurance expenses are recognized as operating expenses as incurred. In addition, the University is self-insured for certain other risks, primarily health and workers' compensation. Accrued self-insurance liabilities aggregated \$59,005,000 and \$59,511,000 as of June 30, 2011 and 2010, respectively.

(k) Sponsored Projects

Revenues under grants, contracts, and similar agreements with sponsors are recognized as expenditures are incurred for agreement purposes. These revenues include recoveries of facilities and administrative costs, which are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions. Facilities and administrative cost recovery revenues for the academic and support divisions of the University were \$299,332,000 in fiscal 2011 and \$281,594,000 in fiscal 2010. Funds received from sponsors in advance of expenditures incurred are reported as deferred revenue.

(l) Tuition and Fees Revenue and Student Financial Aid

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. The University provides financial aid to eligible students, generally in a "package" that includes loans, compensation under work-study programs and/or grant and scholarship awards. The loans are provided primarily through programs of the United States government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid, and University funds.

(m) Refundable Advances from the United States Government

Funds provided by the United States government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds are ultimately refundable to the government and are included in other long-term liabilities. These advances totaled \$30,114,000 and \$29,832,000 as of June 30, 2011 and 2010, respectively.

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Notes to Financial Statements

June 30, 2011 and 2010

(n) *Income Taxes*

The University is qualified as a not-for-profit organization under Section 501(c) (3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements. No provision for income taxes was required for fiscal 2011 or 2010.

(o) *Leases*

The University conducts certain operations in leased facilities, which have minimum lease obligations under noncancelable operating leases. Certain leases contain rent escalations, renewal options and require payments for taxes, insurance, and maintenance. Rent expense is charged to operations as incurred, except for escalating rents, which are charged to operations on a straight-line basis over the life of the lease.

The University also enters into lease agreements that are classified as capital leases. Buildings and equipment under capital leases are recorded at the lower of the net present value of the minimum lease payments or the value of the leased asset at the inception of the lease.

(p) *Derivative Financial Instruments*

The University and their external investment managers are authorized and do use specified derivative financial instruments in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Trustees. The University uses interest rate swap agreements to manage interest rate risk associated with certain variable rate debt or to adjust its debt structure. Derivative financial instruments are measured at fair value and recognized in the balance sheets as assets or liabilities, with changes in fair value recognized in the statements of activities.

(q) *Statement of Cash Flows*

There were no significant noncash transactions in fiscal 2011 and 2010.

(r) *New Accounting Pronouncements*

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2010-06, *Fair Value Measurements and Disclosure: Improving Disclosures about Fair Value Measurements* which provides amendments to Accounting Standards Codification 820. ASU 2010-06 requires entities to disclose additional information regarding assets and liabilities that are transferred between levels of the fair value hierarchy. Entities are also required to disclose information in the Level 3 rollforward about purchases, sales, issuances, and settlements on a gross basis. In addition, ASU 2010-06 clarified existing guidance pertaining to the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. The ASU is effective for the University for the year ended June 30, 2011 (note 6), except the requirement to separately disclose purchases, sales, issuances, and settlements in the Level 3 rollforward that becomes effective in fiscal 2012.

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Notes to Financial Statements

June 30, 2011 and 2010

(2) **Applied Physics Laboratory (APL)**

The Laboratory is organized as a Limited Liability Company (LLC), wholly owned by the University, and operating as a division of the University.

The APL is engaged in research and development work, principally under an omnibus contract with the Naval Sea Systems Command of the United States Navy (NAVSEA). Revenues and expenses under the contract with NAVSEA and contracts with other agencies of the United States government represent substantially all of the revenues and expenses of the APL. The omnibus contract and other contracts define reimbursable costs and provide for fees to the University. The omnibus contract also requires that a portion of the fees earned by the University thereunder be retained and used for various APL-related purposes.

The current contract with NAVSEA continues until September 30, 2012. University management expects that a contractual relationship with the United States Navy will continue after expiration of the current contract.

In accordance with an agreement between the United States government and the University, the APL has been designated a national resource. Under the agreement, if the University should determine that it can no longer sponsor the APL or the Secretary of the Navy should determine that the Navy can no longer contract with the University with respect to the APL, the University will establish a charitable trust to provide for the continued availability of the APL. The trust would be administered by five trustees and the corpus would consist of the University's interest in the APL facilities, including land to the extent necessary, and the balances in the University's APL stabilization, contingency, and research fund on the date the trust is established, less certain costs. Upon termination of the trust, the corpus, in whole or in part, as determined by the trustees would be returned to and held and used by the University for such educational or research purposes and in such manner as the trustees and University agree.

The APL stabilization, contingency, and research fund is included in unrestricted net assets and was \$437,872,000 and \$328,906,000 as of June 30, 2011 and 2010, respectively, including net investment in property and equipment of \$303,548,000 and \$269,819,000, respectively, and funds functioning as endowment of \$64,058,000 and \$56,725,000, respectively.

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Notes to Financial Statements

June 30, 2011 and 2010

(3) Accounts Receivable

Accounts receivable, net is summarized as follows as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Reimbursement of costs incurred under grants and contracts	\$ 335,555	277,283
FICA refund receivable	61,227	50,756
Affiliated institutions, primarily the Hospital (note 11)	32,207	37,901
Students	12,753	10,554
Others	<u>36,746</u>	<u>34,792</u>
Total research, training, students, and other, less allowances of \$31,545 in 2011 and \$36,805 in 2010	478,488	411,286
Receivables for clinical professional fees, net of contractual and bad debt allowances of \$91,313 in 2011 and \$96,208 in 2010	<u>45,181</u>	<u>44,109</u>
	<u>\$ 523,669</u>	<u>455,395</u>

Approximately 85% and 82%, respectively, of reimbursement of costs incurred under grants and contracts as of June 30, 2011 and 2010 were receivables from agencies or departments of the United States government.

In March 2010, the Internal Revenue Service (IRS) announced an administrative determination to accept the position that medical residents are exempt from Federal Insurance Contribution Act (FICA) taxes for calendar years 1991 to 2002. A corresponding liability of \$55,152,000 and \$47,852,000 as of June 30, 2011 and 2010, respectively, was recorded for the amounts paid by the medical residents, the Hospital, and other affiliates, which will be refunded once received by the IRS.

The mix of gross accounts receivable for medical services from patients and third-party payors consisted of the following as of June 30, 2011 and 2010: commercial third parties 41% and 37%, respectively; Medicare 18% and 21%, respectively; Medicaid 11% and 12%, respectively; Blue Cross/Blue Shield 9% and 10%, respectively; and patients 21% and 20%, respectively.

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(4) Contributions Receivable

Contributions receivable, net, is summarized as follows as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Unconditional promises scheduled to be collected in:		
Less than one year	\$ 83,304	49,246
One year to five years	234,547	127,544
Over five years	4,421	11,431
	<u>322,272</u>	<u>188,221</u>
Less unamortized discount (interest ranging from 1.8% to 5.1%) and allowances for uncollectible contributions	26,860	24,355
	<u>\$ 295,412</u>	<u>163,866</u>

As of June 30, 2011 and 2010, 53% and 34%, respectively, of the gross contributions receivable were due from ten donors. Approximately 52% and 20% of contribution revenues for fiscal 2011 and 2010, respectively, were from ten donors. As of June 30, 2011, the University had also been informed of bequest intentions and conditional promises to give aggregating in excess of \$400,000,000, which have not been recognized as assets or revenues. If received, these gifts will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of the University.

(5) Investments and Investment Return

The overall investment objective of the University is to invest its assets in a prudent manner that will achieve a long-term rate of return sufficient to fund a portion of its annual operating activities and increase investment value after inflation. The University diversifies its investments among various asset classes incorporating multiple strategies and managers. Major investment decisions are authorized by the Board's Investment Committee, which oversees the University's investment program in accordance with established guidelines, which cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of market risk (at both the individual issuer and industry group levels), credit quality of fixed-income and short-term investments, use of derivatives, investments in foreign securities, and various other matters. The managers may make use of exchange-traded interest rate futures contracts, forward currency contracts, and other derivative instruments.

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Notes to Financial Statements

June 30, 2011 and 2010

Investments are summarized by class as of June 30, 2011 and 2010 (in thousands):

	2011	2010
Cash and cash equivalents	\$ 268,487	142,244
United States government and agency obligations	570,620	507,049
Debt securities	415,297	484,578
United States equities	388,829	266,228
International equities	775,661	646,988
Private equity and venture capital	541,547	457,879
Real property assets	544,231	439,975
Absolute return funds	724,168	776,873
Other	82,192	76,689
	\$ 4,311,032	3,798,503

As of June 30, 2011 and 2010, other investments represent investments held by the University under deferred compensation agreements. Such amounts approximate the University's related liability to employees, which are included in other long-term liabilities.

The following table summarizes the University's investments as of June 30, 2011 and 2010 for which NAV was used as a practical expedient to estimate fair value (in thousands):

	Fair value determined using NAV		Unfunded commitments	
	2011	2010	2011	2010
United States equities	\$ 157,005	122,192	—	—
International equities	659,232	425,840	—	—
Private equity and venture capital	541,547	457,879	207,070	225,753
Real property assets	379,966	293,128	240,261	249,519
Absolute return funds	724,168	776,873	80,530	100,551
	\$ 2,461,918	2,075,912	527,861	575,823

Information with respect to investee strategies, redemptions, and funding commitments for those investments in funds whose fair value is estimated based upon reported NAVs follow.

United States and International equities: This includes commingled funds that invest in publicly traded common stock of domestic, developed, and emerging market companies. One fund representing \$30,619,000 offers annual liquidity while all other funds allow monthly or quarterly redemptions with various notice requirements ranging from 1 to 120 days.

Private equity and venture capital: This includes funds making investments in leveraged buyouts of both public and private companies, as well as investments in venture capital, growth-stage investing, and distressed debt. These are limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take up to 10 years to fully distribute those assets.

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Real property assets: This includes limited partnerships making investments in oil and gas, timber, agriculture, minerals, other commodities, and real estate. These investments make distributions to investors through the liquidation of the underlying assets. It is expected to take up to 15 years to fully distribute those assets.

Absolute return funds: This includes multistrategy, credit and distressed debt, relative value, and event-driven funds in hedge fund and drawdown formats. Hedge funds have various redemption periods as summarized in the table below, with notice requirements ranging from 14 to 180 days. Drawdown funds are limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take up to 10 years to fully distribute these drawdown funds.

Absolute return funds have the following redemption periods as of June 30, 2011 and 2010:

	2011	2010
Quarterly redemptions	\$ 45,472	96,749
Annual redemptions	220,844	225,049
Quarterly or annual over 1-3 year period	166,628	146,316
Rolling 3-year redemption	27,938	83,430
Drawdown funds over 10-year period	263,286	225,329
	\$ 724,168	776,873

Investment return is summarized as follows for the years ended June 30, 2011 and 2010 (in thousands):

	2011	2010
Dividend and interest income	\$ 56,997	57,046
Net realized and unrealized gains	472,804	327,541
External investment management fees and expenses	(15,508)	(15,303)
Change in value of interests in trusts and endowment funds held by others	8,023	5,506
	\$ 522,316	374,790

Investment return is classified in the statements of activities as follows for the years ended June 30, 2011 and 2010 (in thousands):

	2011	2010
Unrestricted net assets:		
Operating	\$ 154,552	156,033
Nonoperating	173,061	105,578
Temporarily restricted net assets	163,212	116,558
Permanently restricted net assets	31,491	(3,379)
	\$ 522,316	374,790

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(6) Fair Value Measurements

As of June 30, 2011 and 2010, the carrying values of the University's cash and cash equivalents, accounts receivable, contributions receivable, prepaid expenses, deferred charges and other assets, accounts payable, accrued expenses, and certain other liabilities approximate their fair values. An estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the United States government or its designees.

The carrying amounts of debt with variable interest rates, including commercial paper, approximate fair value because the rates reflect the current market rates for debt instruments with similar maturities and credit quality. The fair value of fixed rate debt is estimated based upon quoted market prices for publicly traded issues with similar terms and average maturities. The fair value estimates are at a specific point in time, are subjective in nature and involve judgment. The University is not obligated to settle its debt at fair value. The carrying amount and estimated fair value of the University's fixed rate debt is \$945,055,000 and \$1,019,790,000, respectively, as of June 30, 2011 and \$954,192,000 and \$1,036,990,000, respectively, as of June 30, 2010.

Assets and liabilities that are reported at fair value on a recurring basis are categorized into a fair value hierarchy. Fair value is defined 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. The three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near June 30. If the University has the ability to redeem its interest at NAV or its equivalent within three months of June 30, the investment is classified as Level 2. Investment funds, from which the University does not have the ability to redeem within three months of June 30, are classified as Level 3. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

When observable prices are not available, investments are valued using one or more of the following valuation techniques: market approach – this approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; income approach – this approach determines a valuation by discounting future cash flows; or cost approach – this approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset. These valuation techniques may include

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inputs such as price information, volatility statistics, operating statistics, specific and broad credit data, recent transactions, earnings forecasts, discount rates, reserve reports, futures pricing, and other factors.

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

	Fair value as of June 30, 2011	Level 1	Level 2	Level 3
Assets:				
Investments:				
Cash and cash equivalents	\$ 268,487	268,487	—	—
United States government and agency obligations	570,620	570,620	—	—
Debt securities	415,297	415,297	—	—
United States equities	388,829	231,824	157,005	—
International equities	775,661	116,429	659,232	—
Private equity and venture capital	541,547	—	—	541,547
Real property assets	544,231	16,022	—	528,209
Absolute return funds	724,168	—	45,472	678,696
Other	82,192	82,192	—	—
	<u>4,311,032</u>	<u>1,700,871</u>	<u>861,709</u>	<u>1,748,452</u>
Total investments				
Other assets:				
Deposits with bond trustees	554	554	—	—
Interests in trusts and endowment funds held by others	106,019	—	78,223	27,796
	<u>106,019</u>	<u>—</u>	<u>78,223</u>	<u>27,796</u>
Total assets	\$ <u>4,417,605</u>	<u>1,701,425</u>	<u>939,932</u>	<u>1,776,248</u>
Liabilities:				
Interest rate swaps	\$ 15,905	—	15,905	—
Obligations under deferred compensation agreements	82,128	—	82,128	—
Endowment and similar funds held for others	489,252	—	—	489,252
	<u>489,252</u>	<u>—</u>	<u>—</u>	<u>489,252</u>
Total liabilities	\$ <u>587,285</u>	<u>—</u>	<u>98,033</u>	<u>489,252</u>

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The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2010 (in thousands):

	Fair value as of June 30, 2010	Level 1	Level 2	Level 3
Assets:				
Investments:				
Cash and cash equivalents	\$ 142,244	142,244	—	—
United States government and agency obligations	507,049	507,049	—	—
Debt securities	484,578	484,578	—	—
United States equities	266,228	144,036	122,192	—
International equities	646,988	221,148	425,840	—
Private equity and venture capital	457,879	—	—	457,879
Real property assets	439,975	13,396	—	426,579
Absolute return funds	776,873	—	96,749	680,124
Other	76,689	76,689	—	—
Total investments	3,798,503	1,589,140	644,781	1,564,582
Other assets:				
Deposits with bond trustees	2,756	2,756	—	—
Interests in trusts and endowment funds held by others	94,171	—	69,842	24,329
Total assets	\$ 3,895,430	1,591,896	714,623	1,588,911
Liabilities:				
Interest rate swaps	\$ 29,502	—	29,502	—
Obligations under deferred compensation agreements	72,575	—	72,575	—
Endowment and similar funds held for others	399,981	—	—	399,981
Total liabilities	\$ 502,058	—	102,077	399,981

The methods and assumptions used to estimate the fair value of assets are defined in note 1. The methods and assumptions used to estimate the fair value of interest rate swap liabilities are defined in note 8. The fair value of the obligations under deferred compensation agreements are equal to the fair value of the other investment assets, which are determined using quoted market prices. The fair value of the endowment and similar funds held by others is determined using the estimated per share price of the Endowment Investment Pool (EIP) at the reporting date multiplied by the number of shares in the EIP held by others.

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The following tables present the University's activity for Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2011 and 2010 (in thousands):

	Private equity and venture capital	Real property assets	Absolute return funds	Interests in trusts and endowments held by others	Total
Assets:					
Balance at June 30, 2009	\$ 361,275	371,197	588,479	22,211	1,343,162
Transfers to Level 2	—	—	(39,177)	—	(39,177)
Dividend and interest income	3,305	5,399	6,281	—	14,985
Net realized and unrealized gains (losses)	84,726	(3,086)	122,707	2,118	206,465
Purchases, sales, issuances, and settlements, net	8,573	53,069	1,834	—	63,476
Balance at June 30, 2010	457,879	426,579	680,124	24,329	1,588,911
Transfers from Level 2	—	—	50,593	—	50,593
Dividend and interest income	6,612	7,363	2,395	—	16,370
Net realized and unrealized gains	109,869	61,108	106,713	3,467	281,157
Purchases and issuances	53,041	81,098	43,617	—	177,756
Sales and settlements	(85,854)	(47,939)	(204,746)	—	(338,539)
Balance at June 30, 2011	\$ 541,547	528,209	678,696	27,796	1,776,248

	Endowment and similar funds held for others
Liabilities:	
Balance at June 30, 2009	\$ 340,687
Net realized and unrealized gains	52,922
Purchases, sales, issuances and settlements, net	6,372
Balance at June 30, 2010	399,981
Net realized and unrealized gains	74,642
Purchases, sales, issuances and settlements, net	14,629
Balance at June 30, 2011	\$ 489,252

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For the years ended June 30, 2011 and 2010, the University did not have any transfers between fair value Levels 1 and 2. As of June 30, 2010, investments for which the University had the ability to redeem at NAV on or within 90 days of June 30, 2010 were transferred from Level 3 to Level 2. As of June 30, 2011, investments that were no longer redeemable within 90 days after June 30, 2011 were transferred to Level 3 from Level 2.

(7) Investment in Property and Equipment

Investment in property and equipment, net, is summarized as follows as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>	<u>Range of useful lives</u>
Land	\$ 76,324	76,324	N/A
Land improvements	83,778	79,489	15 years
Buildings and leasehold improvements	2,504,818	2,364,129	10 – 40 years
Equipment	670,951	609,744	7 – 15 years
Capitalized software costs	108,246	106,274	3 – 10 years
Library collections	227,933	215,024	25 years
Construction in progress	183,065	188,973	N/A
	<u>3,855,115</u>	<u>3,639,957</u>	
Less accumulated depreciation and amortization	<u>1,796,471</u>	<u>1,632,162</u>	
	<u>\$ 2,058,644</u>	<u>2,007,795</u>	

(8) Debt

Debt is summarized as follows as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Bonds payable	\$ 1,011,698	1,023,774
Notes payable	107,267	116,791
Commercial paper revenue notes – tax-exempt	257,610	266,528
Commercial paper revenue notes – taxable	22,588	54,488
Capital lease obligations (note 14)	55,044	57,107
	<u>\$ 1,454,207</u>	<u>1,518,688</u>

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Bonds Payable

Bonds payable, except for the Revenue Bonds of 2009A issued directly, were issued by Maryland Health and Higher Educational Facilities Authority (MHHEFA), and consist of the following as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Refunding Revenue Bonds of 2001A, 5.00%, due July 2013, including unamortized premium of \$82 in 2011 and \$126 in 2010	\$ 8,442	10,901
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of \$1,276 in 2011 and \$1,293 in 2010	84,499	84,482
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of \$1,367 in 2011 and \$1,403 in 2010	105,357	105,321
Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of \$993 in 2011 and \$1,039 in 2010	93,498	93,544
Revenue Bonds of 2005A, variable rate, due July 2036	69,265	69,265
Revenue Bonds of 2008A, 5.00% to 5.25%, due July 2038, including unamortized premium of \$5,274 in 2011 and \$5,541 in 2010	135,154	135,421
Refunding Revenue Bonds of 2008B, variable rate, due July 2027	115,700	125,085
Revenue Bonds of 2009A, 5.25%, due July 2019, net of unamortized discount of \$217 in 2011 and \$245 in 2010	399,783	399,755
	<u>\$ 1,011,698</u>	<u>1,023,774</u>

The bonds payable outstanding as of June 30, 2011 and 2010 are unsecured general obligations of the University. The loan agreements generally provide for semiannual or annual payments of interest. The Revenue Bonds of 2005A and 2008B bear interest at a variable rate, which is reset on a weekly basis (0.05% and 0.04% at June 30, 2011 and June 30, 2010, respectively) and provide for monthly payments of interest. No principal payments are due on the Refunding Revenue Bonds of 2001B, the Revenue Bonds of 2002A, the Revenue Bonds of 2005A, or the Revenue Bonds of 2009A prior to maturity. The Revenue Bonds of 2004A provide for serial principal payments prior to maturity of \$9,100,000, \$10,000,000, \$10,000,000, and \$23,405,000 in 2020, 2024, 2029, and 2033, respectively. The Revenue Bonds of 2008A provide for serial principal payments prior to maturity of \$15,000,000 and \$30,000,000 in 2013 and 2018, respectively.

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Notes Payable

Notes payable consist of the following as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
MHHEFA note due June 2013	\$ 4,156	4,403
MHHEFA note due November 2015	20,006	23,741
MHHEFA note due November 2020	11,312	12,133
MHHEFA note due February 2025	3,462	3,642
MHHEFA note due July 2026	5,053	5,211
Note due June 2012, 5.34%	299	577
Note due December 2019, 8.88%	51,867	55,544
Note due February 2014, 4.75%	8,036	8,262
Note due February 2044, 4.75%	1,878	1,878
Note due March 2017, 2.25%	1,198	1,400
	<u>\$ 107,267</u>	<u>116,791</u>

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University, bear interest at a variable rate (1.00% at June 30, 2011) and are due in monthly installments. Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances (none required as of June 30, 2011 or 2010).

The note due June 2012 is an unsecured general obligation of the University and is due in annual installments (with interest payable semiannually). Under terms of the related loan agreement, the University may be required to provide security for the loan in certain circumstances (none required as of June 30, 2011 or 2010). The note due December 2019 is secured by certain of the University's property and is due in annual installments with interest payable monthly.

The notes due February 2014 and February 2044 are unsecured general obligations of the University and may not be prepaid prior to their respective maturity dates. The note due February 2014 provides for monthly principal and interest payments based on a 25-year amortization schedule with full principal repayment due on the maturity date. The note due February 2044 provides for monthly interest payments until the maturity date at which time the entire amount of the principal and unpaid accrued interest is due.

The note due March 2017 was issued by the Maryland Energy Administration in the principal amount of \$1,500,000 to fund energy efficient improvements. The note is an unsecured obligation of the University and is payable in semiannual installments.

Commercial Paper

The commercial paper revenue notes were issued by MHHEFA. Under the commercial paper program, the University may have revenue notes outstanding of up to \$400,000,000 to finance and refinance the costs of qualified assets to July 2035. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from that date, although it is anticipated that the University will continuously renew maturing notes for a period of up to 120% of the estimated useful lives of the related assets. The notes outstanding at June 30, 2011 bear interest at a weighted average rate of 0.20%.

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Interest Costs

Total interest costs incurred and paid were \$75,624,000 in 2011 and \$60,812,000 in 2010, of which \$5,507,000 in 2011 and \$4,535,000 in 2010 were capitalized. Accrued interest as of June 30, 2011 and 2010 was \$121,000 and \$13,381,000, respectively. There was no interest income in 2011 but \$54,000 in 2010 earned from the investment of the unexpended proceeds of certain tax-exempt borrowings has been applied to reduce the costs of the related assets acquired.

Debt Covenants

Certain of the University's debt agreements include covenants that require the University to maintain minimum levels of financial ratios. The University was in compliance with its covenant requirements as of June 30, 2011.

Other Credit Agreements

In order to support liquidity requirements under the bond and commercial paper revenue notes programs with MHHEFA, the University has two standby liquidity support agreements with commercial banks in the amount of \$300,000,000 and \$100,000,000, with maturity dates of May 2013 and April 2014, respectively. These agreements would provide funds to the University in the event that bonds or commercial paper revenue notes could not be remarketed. Annual fees for the \$300,000,000 and \$100,000,000 agreements are 48 basis points and 45 basis points, respectively. Advances under these agreements are unsecured and bear interest at a rate that varies based on certain market indices. Advances for one agreement are due in 90 days and advances for the other agreement are due by the stated expiration date. There were no borrowings under these agreements during fiscal 2011 and 2010.

Under terms of a master note agreement with a commercial bank, the University may borrow up to \$100,000,000 under a line of credit for APL working capital purposes. Advances under the line of credit are unsecured, due on demand, and bear interest at a rate that varies based on certain market indices. The fee for this agreement was renegotiated in March 2011 from 5 basis points annually to 6 basis points for a 2-year term and the unused line fee from 15 basis points per annum to 14 basis points per annum. There were no borrowings outstanding on the line of credit as of June 30, 2011 or 2010.

Interest Rate Swap Agreements

Under interest rate swap agreements, the University and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

Parties to interest rate swap agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. The University is not generally required to post any collateral under these agreements, but collateral is required under certain specified events. As of June 30, 2011, no collateral has been posted but \$7,400,000 was posted for these agreements as of June 30, 2010 and was included in cash and cash equivalents.

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The University has an interest rate swap agreement to reduce its interest rate risk on the Revenue Bonds of 2005A. This agreement extends through July 2036 and provides for the University to pay a fixed rate of 3.87% and receive a variable rate equal to the Securities Industry and Financial Markets Association (SIFMA) municipal index (0.09% as of June 30, 2011) based on a notional principal amount of \$69,265,000.

The University also has executed two forward starting interest rate swaps to reduce its interest rate risk related to the refunding of the callable Refunding Revenue Bonds of 1997 and 1998. The agreement related to the Refunding Revenue Bonds of 1997 had an effective date of July 2007 and terminates in July 2027. The University pays a fixed rate of 3.45% and receives a variable rate equal to 67% of the 1-month LIBOR index (0.12% as of June 30, 2011) based on a current notional amount of \$11,350,000. The agreement related to the Refunding Revenue Bonds of 1998 had an effective date of July 2008 and terminates in July 2020. The University pays a fixed rate of 3.43% and receives a variable rate equal to 67% of the 1-month LIBOR index based on a current notional amount of \$113,735,000.

The University also uses interest rate swap agreements to adjust its debt structure in accordance with its policy guidelines. Under one agreement, which had an effective date of July 2008 and original termination in July 2038, the University paid a fixed rate of 3.90% and received a variable rate based on a notional amount of \$115,000,000. In July 2010, this swap agreement was restructured. Under the terms of the new agreement, the fixed rate was amended from 3.90% to 3.02% and the floating rate basis was amended from the SIFMA municipal index to 70% of the 3-month LIBOR index. In February 2011, the University terminated the \$115,000,000 fixed payer swap.

The fair value of each swap is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date considering current interest rates and creditworthiness of the swap counterparties. The aggregate fair value of the University's interest rate swap agreements as of June 30, 2011 and 2010 was a liability of \$15,905,000 and \$29,502,000, respectively, and is reported as other liabilities. Changes in the fair value of the interest rate swap agreements are reported as nonoperating activities. The change in fair value was a gain of approximately \$13,597,000, net of the swap termination fee, and a loss of \$14,710,000 in fiscal 2011 and fiscal 2010, respectively.

Annual Principal Payments

The following table summarizes the aggregate annual maturities of bonds payable, notes payable, and the maturities of specific commercial paper revenue note tranches, for the five years subsequent to June 30, 2011 (in thousands):

	<u>Bonds payable</u>	<u>Notes payable</u>	<u>Commercial paper notes</u>	<u>Total</u>
2012	\$ 12,405	10,239	2,082	24,726
2013	31,205	14,355	9,963	55,523
2014	10,905	18,549	11,200	40,654
2015	11,485	11,858	6,859	30,202
2016	12,085	9,656	14,006	35,747

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(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Contributions restricted for departments and divisions	\$ 323,563	242,910
Endowment return restricted for departments, divisions, and student aid	524,071	390,722
Contributions restricted for facilities	97,554	145,812
Split-interest agreements designated for departmental and divisional support	32,947	31,463
Land subject to time and purpose restrictions	73,000	70,000
	<u>\$ 1,051,135</u>	<u>880,907</u>

Permanently restricted net assets consist of donor-restricted endowment funds, perpetual trusts, and contributions receivable, in which income is available for the following purposes as of June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Departmental and divisional support	\$ 1,161,492	1,040,370
Student aid	252,680	224,115
	<u>\$ 1,414,172</u>	<u>1,264,485</u>

(10) University Endowment

The University's endowment consists of approximately 3,300 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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 the University has interpreted the Maryland enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

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The Board of Trustees of the University manages and invests the individual endowment funds in the exercise of ordinary business care and prudence under facts and circumstances and considering the purposes, factors, and other requirements of UPMIFA. The University classifies as permanently restricted net assets (a) the original value of gifts donated, which are donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment, which are not expendable on a current basis in accordance with the directions 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 Board of Trustees, or, if in an underwater position, as unrestricted net assets.

The University has adopted investment policies for its endowment, including board-designated funds that attempt to provide a predictable stream of funding in support of the operating budget, while seeking to preserve the real value of the endowment assets over time. The University relies on a total return strategy under which investment returns are achieved through both appreciation (realized and unrealized) and yield (interest and dividends). Investments are diversified by asset class, as well as by investment manager and style, with a focus on achieving long-term return objectives within prudent risk constraints.

Subject to the intent of the donor, the Board of Trustees appropriates for expenditure or accumulates funds in the endowments in the exercise of ordinary business care and prudence under the facts and circumstances and considering the purposes, factors, and other requirements of UPMIFA. The annual appropriation is determined in the context of the University's spending rate policy. The current policy, which is based on a long-term investment return assumption as well as an estimated inflation factor, targets the appropriation to be in a range of 4.5% to 5.5% of the prior three years' average value of the endowment.

Endowment net assets consist of the following as of June 30, 2011 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (8,545)	524,071	1,206,471	1,721,997
Board-designated endowment funds	876,470	—	—	876,470
	\$ 867,925	524,071	1,206,471	2,598,467

Endowment net assets consist of the following as of June 30, 2010 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (49,476)	390,722	1,124,206	1,465,452
Board-designated endowment funds	761,213	—	—	761,213
	\$ 711,737	390,722	1,124,206	2,226,665

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Changes in endowment net assets for the years ended June 30, 2010 and 2011 are as follows (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009	\$ 577,633	311,345	1,094,363	1,983,341
Investment return	171,514	150,728	(17,995)	304,247
Contributions and designations	15,636	(525)	47,838	62,949
Appropriation for expenditure	<u>(53,046)</u>	<u>(70,826)</u>	<u>—</u>	<u>(123,872)</u>
Endowment net assets, June 30, 2010	711,737	390,722	1,124,206	2,226,665
Investment return	188,245	204,426	9,176	401,847
Contributions and designations	20,619	(88)	73,089	93,620
Appropriation for expenditure	<u>(52,676)</u>	<u>(70,989)</u>	<u>—</u>	<u>(123,665)</u>
Endowment net assets, June 30, 2011	\$ <u>867,925</u>	<u>524,071</u>	<u>1,206,471</u>	<u>2,598,467</u>

(11) Affiliated Organizations

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Johns Hopkins Health System	\$ 18,181	17,567
Johns Hopkins Hospital	219,853	209,836
Johns Hopkins Bayview Medical Center	53,619	52,282
Other Johns Hopkins entities	33,631	39,167
Other affiliated medical institutions	<u>35,903</u>	<u>35,542</u>
	\$ <u>361,187</u>	<u>354,394</u>

(a) The Johns Hopkins Health System (JHHS)

JHHS is incorporated and governed separately from the University and is the parent entity of an academically based health system, which includes the Hospital, The Johns Hopkins Bayview Medical Center, Howard County General Hospital, Suburban Hospital, Sibley Memorial Hospital, All Children's Hospital, and other related organizations. The University and JHHS have established a Board of Johns Hopkins Medicine (JHM) to direct, integrate, and coordinate the clinical activities of the two organizations. JHM does not have the authority to incur debt or issue guarantees and its annual budgets require the approval of the boards of trustees of both the University and JHHS.

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In both fiscal 2011 and 2010, the University contributed \$5,000,000 to JHHS to support certain JHHS initiatives, including but not limited to JHHS facility renovation and construction, which are reported as operating expenses in the statements of activities. The University contributed an additional \$5,000,000 in fiscal 2011 and 2010, solely to support JHHS construction activities, which are reported as nonoperating expenses in the statements of activities.

(b) *The Hospital*

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and the Hospital share facilities and provide services to each other to fulfill their purposes more effectively. The sharing of facilities and services is negotiated annually and set forth in a Joint Administrative Agreement (JAA). Costs charged to the Hospital under the JAA, related primarily to the provision of professional medical services from the University, aggregated \$157,569,000 in fiscal 2011 and \$146,700,000 in fiscal 2010 and are included in reimbursements from affiliated institutions in the statements of activities. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated \$42,961,504 in fiscal 2011 and \$41,210,000 in fiscal 2010, and are included in operating expenses in the statements of activities.

(c) *Johns Hopkins Bayview Medical Center (JHBMC)*

JHBMC is a community-based teaching hospital and long-term care facility. The University and JHBMC also share facilities and provide services to each other and negotiate the costs annually under a Joint Administrative Agreement (JAA). Costs charged to JHBMC under the JAA, related primarily to the provision of professional medical services from the University, aggregated \$50,840,000 in fiscal 2011 and \$48,977,000 in fiscal 2010 and are included in reimbursements from affiliated institutions in the statements of activities.

(d) *The Johns Hopkins Hospital Endowment Fund*

In July 2007, the University and JHHEFI entered into an agreement whereby JHHEFI transferred approximately \$381,000,000 to the University to invest in the University's EIP and have the University manage these assets on JHHEFI's behalf. The funds were invested with other University assets in the University's name and title, and in accordance with the University's EIP investment policies and objectives. JHHEFI receives payouts as determined by their Board of Trustees and may terminate the agreement upon 180 days' written notice with liquidations to be made over a three-year period as specified in the agreement. The assets are included in investments in the balance sheets, and a corresponding liability of \$388,153,000 and \$308,482,000 is included in endowment and similar funds held for others as of June 30, 2011 and 2010, respectively.

(e) *Jointly Owned Entities*

As of June 30, 2011 and 2010, the University and JHHS jointly own several entities that are accounted for on the equity method. The University's aggregate investment in these joint ventures was approximately \$66,291,000 and \$55,294,000 as of June 30, 2011 and 2010, respectively. Equity in earnings of affiliates aggregated approximately \$21,437,000 in fiscal 2011 and \$12,576,000 in fiscal 2010 and is included in other revenues in the statement of activities.

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In 2005, one of these entities, JHMI Utilities LLC, was formed to provide utility services for the east Baltimore campus. The University and Hospital, each owning 50% of JHMI Utilities LLC, provide all of its funding, including debt service, through payments for services received. Utility and telecommunications services provided to the University in fiscal 2011 and 2010 were approximately \$33,585,000 and \$34,122,000, respectively.

Although the University's ownership interest in each of the jointly owned entities is 50%, the University and JHHS have entered into separate agreements whereby certain activities or lines of business within these entities are not shared equally.

The following table summarizes the aggregate condensed financial information of the jointly owned entities and the University's proportionate share of the entities as of and for the years ended June 30, 2011 and 2010, respectively (in thousands):

	2011		2010	
	Total	University interest	Total	University interest
Assets	\$ 521,347	230,507	511,051	236,288
Liabilities	362,828	164,216	394,333	180,994
Operating revenues	1,465,362	584,432	1,236,452	480,852
Operating expenses	1,361,372	562,995	1,173,086	468,276

(12) Pension and Postretirement Benefit Plans

The University has several pension plans that are available to substantially all full-time employees. Most of these plans are defined contribution plans for which the University's policy is to fund pension costs as accrued. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was \$179,544,000 in fiscal 2011 and \$157,871,000 in fiscal 2010, including \$147,411,000 and \$138,680,000, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for \$51,450,000 in fiscal 2011 and \$48,314,000 in fiscal 2010.

Effective July 1, 2011, the University closed the support staff pension plan to new participants. In addition, the University offered a choice to current participants between the current support staff pension plan and the new Johns Hopkins 403b plan.

The University has retiree benefits plans that provide postretirement medical benefits to employees, including those at APL, who meet specified minimum age and service requirements at the time they retire. The University pays a portion of the cost of participants' medical insurance coverage. The University's portion of the cost for an individual participant depends on various factors, including the age, years of service, and time of retirement or retirement eligibility of the participant. The University has established a trust fund for its retiree benefits plans and intends to make contributions to the fund approximately equal to the annual net postretirement benefit cost.

Actuarial gains in 2011 are attributable primarily to lower average medical claims experience and changes in the mix of retiree ages (pre-65 and post-65), which was supported by continued historical plan data.

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In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law. The Health Care Acts include several provisions that may affect the University's postretirement benefit plans, including imposing an excise tax on high-cost coverage, eliminating lifetime and annual coverage limits, reducing subsidies to Medicare Advantage plans, and imposing inflation-adjusted fees for each person covered by a health insurance policy for each policy plan year ending after September 30, 2012 through September 30, 2019. The University has evaluated the effects of the Health Care Acts and concluded that the provisions that affect its postretirement benefit plan are the elimination of lifetime coverage limits and the inflation-adjusted fee. The effect of these two provisions, estimated to be \$1,372,000, has been included in the measurement of the postretirement benefit obligation as of June 30, 2011. The University is accounting for the effect of the Health Care Acts as prior service cost.

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The University uses a June 30 measurement date for its defined benefit pension plan and retiree benefit plans. Information relating to the benefit obligation, assets, and funded status of the defined benefit pension plan and the postretirement benefit plans as of and for the years ended June 30, 2011 and 2010 is summarized as follows (in thousands):

	Pension plan		Postretirement plans	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 405,468	301,758	290,984	213,357
Service cost	19,020	12,534	15,433	9,527
Interest cost	22,273	20,084	16,606	14,463
Plan amendments	(2,282)	—	—	—
Participant contributions	—	—	6,068	5,234
Actuarial (gain) loss	(2,697)	81,901	(58,501)	62,827
Benefits paid	(11,541)	(10,809)	(16,148)	(16,252)
Medicare subsidies received	—	—	1,746	1,828
Benefit obligation at end of year	<u>430,241</u>	<u>405,468</u>	<u>256,188</u>	<u>290,984</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	251,668	217,584	152,953	126,912
Actual return on plan assets	46,618	26,025	30,873	15,070
University contributions	32,098	18,868	29,881	20,161
Participant contributions	—	—	6,068	5,234
Benefits paid	(11,541)	(10,809)	(16,148)	(16,252)
Medicare subsidies received	—	—	1,745	1,828
Fair value of plan assets at end of year	<u>318,843</u>	<u>251,668</u>	<u>205,372</u>	<u>152,953</u>
Funded status recognized as other long-term liabilities	<u>\$ (111,398)</u>	<u>(153,800)</u>	<u>(50,816)</u>	<u>(138,031)</u>
Cumulative amounts recognized in unrestricted net assets:				
Net loss	\$ (101,575)	(141,463)	(35,941)	(120,324)
Prior service cost	1,909	(605)	(12,036)	(13,429)
Transition obligation	<u>—</u>	<u>—</u>	<u>(3,014)</u>	<u>(4,520)</u>
Amount not yet recognized as pension or postretirement benefit cost	<u>\$ (99,666)</u>	<u>(142,068)</u>	<u>(50,991)</u>	<u>(138,273)</u>

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The accumulated benefit obligation for the pension plan was \$396,110,000 as of June 30, 2011 and \$369,666,000 as of June 30, 2010.

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2011 and 2010 (in thousands):

	Pension plan		Postretirement plans	
	2011	2010	2011	2010
Net (gain) loss for the year	\$ (30,614)	73,259	(77,305)	58,142
Prior service cost	(2,282)	—	—	—
Amortization of net transition obligation	—	—	(1,506)	(1,506)
Amortization of prior service cost	(232)	(232)	(1,393)	(1,393)
Amortization of net loss	(9,274)	(3,400)	(7,011)	(3,059)
Net (gain) loss recognized in nonoperating activities	\$ <u>(42,402)</u>	<u>69,627</u>	<u>(87,215)</u>	<u>52,184</u>

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2012 (in thousands):

	Pension plan	Postretirement plans
Net loss	\$ (5,105)	(1,303)
Prior service cost	166	(1,393)
Transition obligation	—	(1,506)
	\$ <u>(4,939)</u>	<u>(4,202)</u>

The net pension cost reported in operating expenses includes the following components for the years ended June 30, 2011 and 2010 (in thousands):

	2011	2010
Service cost	\$ 19,020	12,534
Interest cost on accumulated benefit obligation	22,273	20,084
Amortization of prior service cost	232	232
Expected return on plan assets	(18,701)	(17,382)
Amortization of net loss	9,274	3,400
	\$ <u>32,098</u>	<u>18,868</u>

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The postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Service cost	\$ 15,433	9,527
Interest cost on accumulated benefit obligation	16,606	14,463
Expected return on plan assets	(12,002)	(10,385)
Amortization of transition obligation	1,506	1,506
Amortization of prior service cost	1,393	1,393
Amortization of actuarial loss	7,011	3,059
	<u>\$ 29,947</u>	<u>19,563</u>

The weighted average assumptions used to determine benefit obligations and net periodic benefit costs are as follows:

	<u>Pension plan</u>		<u>Postretirement plans</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	5.60%	5.50%	5.60%	5.50%
Rate of compensation increase	4.50	4.50	N/A	N/A
Rate of increase in healthcare costs for next year	N/A	N/A	7.50	7.70
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	5.50%	6.85%	5.50%	6.85%
Expected rate of return on plan assets	7.50	8.00	7.50	8.00
Rate of compensation increase	4.50	4.00	N/A	N/A
Rate of increase in healthcare costs	N/A	N/A	7.70	7.80

The expected long-term rate of return for the assets of the plans is based on historical and expected long-term future asset class returns. The rate is reviewed annually and adjusted as appropriate to reflect changes in projected market performance or in the targeted asset allocations.

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The rate of increase in healthcare costs was assumed to decrease to 4.50% in 2028 and to remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the reported postretirement benefit cost and obligation. A one-percentage-point change in the assumed rates used at June 30, 2011, would have the following effects (in thousands):

	Increase	Decrease
Total service and interest cost components	\$ 3,176	(2,472)
Postretirement benefit obligation	25,932	(20,775)

Plans' Assets

The purpose of the pension and postretirement plans are to meet the retirement benefit obligations of eligible University employees. The plans' assets are invested with the objective of meeting these obligations under the rules stipulated by the Employee Retirement Income Security Act (ERISA).

An asset allocation has been established, which endeavors to adequately cover the liability stream posed by the beneficiaries of the plans and minimize the frequency and amount of the plans' contributions by the University. The intended benefits of this diversification are reduced risk and improved investment returns.

The University's target asset and actual asset allocations by category as of June 30, 2011 and 2010 are as follows:

	Pension plan			Postretirement plans		
	Target allocation	Actual allocation		Target allocation	Actual allocation	
		2011	2010		2011	2010
Cash and cash equivalents	—%	7%	4%	—%	13%	4%
U.S. government obligations	—	9	10	—	5	6
Debt securities	30	22	27	35	23	31
United States and international equities	50	53	48	65	59	59
Real assets	15	3	4	—	—	—
Absolute return funds	5	6	7	—	—	—
	100%	100%	100%	100%	100%	100%

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The following tables present the fair value and categorization within the fair value hierarchy of the assets of the defined benefit pension plan at June 30, 2011 and 2010 (in thousands):

		2011			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$	23,772	23,772	—	—
U.S. government obligations		27,765	27,765	—	—
Debt securities		68,390	—	68,390	—
United States equities		79,438	34,226	45,212	—
International equities		90,090	20,800	69,290	—
Real assets		10,583	—	10,583	—
Absolute return funds		18,805	—	6,166	12,639
Total	\$	<u>318,843</u>	<u>106,563</u>	<u>199,641</u>	<u>12,639</u>

		2010			
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$	9,783	9,783	—	—
U.S. government obligations		25,881	25,881	—	—
Debt securities		67,116	—	67,116	—
United States equities		57,051	29,090	27,961	—
International equities		59,682	5,995	53,687	—
Real assets		15,794	6,584	—	9,210
Absolute return funds		16,361	—	5,869	10,492
Total	\$	<u>251,668</u>	<u>77,333</u>	<u>154,633</u>	<u>19,702</u>

The following tables present the fair value and categorization within the fair value hierarchy of the assets of the postretirement plans at June 30, 2011 and 2010 (in thousands):

		2011		
		Total	Level 1	Level 2
Cash and cash equivalents	\$	26,558	26,558	—
U.S. government obligations		9,440	9,440	—
Debt securities		49,971	3,414	46,557
United States equities		60,526	40,504	20,022
International equities		58,877	7,916	50,961
Total	\$	<u>205,372</u>	<u>87,832</u>	<u>117,540</u>

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		2010		
		Total	Level 1	Level 2
Cash and cash equivalents	\$	6,331	6,331	—
U.S. government obligations		8,800	8,800	—
Debt securities		48,212	3,369	44,843
United States equities		48,946	26,167	22,779
International equities		40,664	3,152	37,512
Total	\$	<u>152,953</u>	<u>47,819</u>	<u>105,134</u>

The methods and assumptions used to estimate the fair value of each class of the above financial instruments are consistent with those disclosed for the University's long-term investments as discussed in note 1(f).

The following table presents the activity for the University's pension plan Level 3 assets for the year ended June 30, 2011 and 2010 (in thousands):

		Real assets	Absolute return funds	Total
		<u>Real assets</u>	<u>Absolute return funds</u>	<u>Total</u>
Balance at June 30, 2009	\$	9,654	8,624	18,278
Dividend and interest income		691	—	691
Net realized and unrealized gains (losses)		(1,025)	1,868	843
Purchases, sales, issuances, and settlements, net		<u>(110)</u>	<u>—</u>	<u>(110)</u>
Balance at June 30, 2010		9,210	10,492	19,702
Transfers (to) from Level 2		(9,210)	374	(8,836)
Net realized and unrealized gains		—	1,773	1,773
Purchases, sales, issuances, and settlements, net		<u>—</u>	<u>—</u>	<u>—</u>
Balance at June 30, 2011	\$	<u>—</u>	<u>12,639</u>	<u>12,639</u>

As of June 30, 2011, absolute return fund investments that were no longer redeemable at NAV on or within 90 days of June 30, 2011 were transferred from Level 2 to Level 3. Accordingly, real asset investments that the University had the ability to redeem at NAV on or within 90 days of June 30, 2011 were transferred from Level 3 to Level 2.

Cash Flows

The University expects to contribute \$15,249,000 to its postretirement benefit plans in 2012. The University expects to contribute \$26,000,000 to the pension plan in 2012.

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The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2011 and in aggregate for the five years thereafter are as follows (in thousands):

	<u>Pension plan</u>	<u>Postretirement plans</u>	<u>Medicare subsidies</u>
2012	\$ 14,081	12,385	2,273
2013	15,397	13,259	2,568
2014	16,463	14,096	2,889
2015	17,981	14,974	3,265
2016	19,221	15,950	3,658
2017 – 2021	123,254	100,271	16,339

(13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Instruction, research, and clinical practice:		
Academic and support divisions	\$ 2,592,836	2,430,100
APL contracts	1,080,254	1,016,423
Student services	86,155	76,541
Libraries	39,893	37,638
General services and administration	375,432	364,803
Auxiliary enterprises	97,241	93,873
	<u>\$ 4,271,811</u>	<u>4,019,378</u>

Costs related to the operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities.

(14) Lease Commitments

The University leases certain facilities from the Hospital under a renewable one-year lease, which provides for a rent equal to the cost to the Hospital of providing and maintaining the facilities. This lease has been renewed for the year ended June 30, 2011.

The University leases other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2025, subject to renewal options in certain cases. Certain of these facilities are leased from affiliated entities.

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The aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms of these leases, excluding the rentals to the Hospital under the JAA, are as follows as of June 30, 2011 (in thousands):

	<u>Affiliates</u>	<u>Others</u>	<u>Total</u>
2012	\$ 11,673	28,076	39,749
2013	4,600	27,231	31,831
2014	4,174	23,424	27,598
2015	3,881	21,593	25,474
2016	2,381	18,823	21,204
After 2016	3,860	51,084	54,944
	<u>\$ 30,569</u>	<u>170,231</u>	<u>200,800</u>

Rental expense for the long-term operating leases was \$46,863,000 in fiscal year 2011 and \$42,496,000 in fiscal year 2010.

The University also leases building and leasehold improvements and certain equipment under capital leases. The following is a summary of minimum lease payments for these leases as of June 30, 2011 (in thousands):

2012	\$ 5,612
2013	5,775
2014	5,942
2015	6,114
2016	6,291
After 2016	<u>69,684</u>
Minimum lease payments	99,418
Less imputed interest (at rates from 4.51% to 8.41%)	<u>44,374</u>
Present value of minimum lease payments	<u>\$ 55,044</u>

As of June 30, 2011, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases property amounted to \$60,720,000 and \$15,120,000, respectively.

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(15) Other Commitments and Contingencies

The University has the following additional commitments and guarantees relating to affiliated organizations:

- The University has guaranteed payment of principal and interest on the Series 2005B Bonds issued by MHHEFA for JHMI Utilities LLC. JHMI Utilities LLC is equally owned by the Hospital and the University. The proceeds of the 2005B Bonds (\$24,300,000) and the Hospital guaranteed 2005A Bonds (\$24,545,000) financed the construction, renovation, and equipping of a central power plant serving primarily the facilities of the Hospital and University in east Baltimore. The University's guarantee continues until maturity of the bonds in 2035.
- The University and the Hospital have also provided guarantees of principal and interest payments related to loans granted to JHMI Utilities LLC under the MHHEFA Pooled Loan Program. These loans were primarily used to provide additional financing for the central power plant project. As of June 30, 2011, the University's guarantee amounted to \$26,336,000 and the Hospital's guarantee amounted to \$19,007,000. The University's guarantees continue until maturity of the loans in 2017.
- The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of \$385,000) due under a loan issued by MHHEFA to JHHS to finance the acquisition of Howard County General Hospital. This guarantee continues until maturity of the loan in 2033.
- The University, through a participation agreement with an unrelated third party, has guaranteed payment of certain financing of East Baltimore Development, Inc. up to \$4,730,000.

The University is subject to various claims, litigation, tax, and other assessments in connection with its domestic and foreign operations. In the opinion of management, adequate provision has been made for possible losses on these matters, where material and their ultimate resolution will not have a significant effect on the financial position of the University.

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a material adverse effect on the financial position of the University.

(16) Subsequent Events

The University evaluated subsequent events through October 26, 2011, which is the date the financial statements were issued, and determined there were no matters that required adjustment to or disclosure in the financial statements.