JOHNS HOPKINS UNIVERSITY

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

KPMG LLP
111 S. Calvert Street
Baltimore, Maryland 21202

Independent Auditors' Report

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying balance sheets of The Johns Hopkins University as of June 30, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in note 15, the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

KPMG LLP

October 23, 2007

JOHNS HOPKINS UNIVERSITY

Balance Sheets

June 30, 2007 and 2006

(In thousands)

Assets		2007	2006
Cash and cash equivalents	$	134,517	168,263
Accounts receivable, net		433,681	332,437
Contributions receivable, net		182,790	128,987
Prepaid expenses, deferred charges and other assets		85,665	67,048
Student loans receivable, net		31,458	30,590
Deposits with bond trustees		438	10,260
Investments		3,422,769	3,041,117
Investment in property and equipment, net		1,745,222	1,624,076
Interests in trusts and endowment funds held by others		114,937	108,018
Total assets	$	6,151,477	5,510,796
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	347,757	304,392
Deferred revenues and other liabilities		271,231	240,925
Payables and deferred revenues under split interest agreements		89,746	79,116
Debt		942,402	951,836
Obligations under deferred compensation agreements and other long-term liabilities		260,577	201,012
Endowment and similar funds held for purposes of Johns Hopkins Hospital		79,536	69,491
Total liabilities		1,991,249	1,846,772
Net assets:			
Unrestricted		2,521,159	2,205,164
Temporarily restricted		515,283	439,443
Permanently restricted		1,123,786	1,019,417
Total net assets		4,160,228	3,664,024
Total liabilities and net assets	$	6,151,477	5,510,796

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statement of Activities

Year ended June 30, 2007

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid of $176,912	$ 341,368	—	—	341,368
Grants, contracts and similar agreements	1,863,018	—	—	1,863,018
Clinical services	352,155	—	—	352,155
Reimbursements from affiliated institutions	279,490	—	—	279,490
Contributions	88,482	79,899	—	168,381
Investment income	133,590	—	—	133,590
Maryland State aid	21,009	—	—	21,009
Sales and services of auxiliary enterprises	75,335	—	—	75,335
Other revenues	82,862	—	—	82,862
Net assets released from restrictions	62,470	(62,470)	—	—
Total operating revenues	3,299,779	17,429	—	3,317,208
Operating expenses:				
Compensation and benefits	1,945,610	—	—	1,945,610
Contractual services	655,309	—	—	655,309
Supplies, materials and other	459,156	—	—	459,156
Depreciation and amortization	144,194	—	—	144,194
Travel	66,200	—	—	66,200
Interest	39,922	—	—	39,922
Total operating expenses	3,310,391	—	—	3,310,391
Excess (deficiency) of operating revenues over expenses	(10,612)	17,429	—	6,817
Nonoperating revenues, gains and losses:				
Contributions	—	84,413	96,797	181,210
Investment income	349,541	2,758	7,497	359,796
Other, net	(1,575)	286	75	(1,214)
Net assets released from restrictions	29,046	(29,046)	—	—
Effect of the change in accounting for defined benefit pension and postretirement plans	(50,405)	—	—	(50,405)
Increase in net assets	315,995	75,840	104,369	496,204
Net assets at beginning of year	2,205,164	439,443	1,019,417	3,664,024
Net assets at end of year	$ 2,521,159	515,283	1,123,786	4,160,228

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statement of Activities

Year ended June 30, 2006

(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid of $158,582	$ 312,654	—	—	312,654
Grants, contracts and similar agreements	1,791,820	—	—	1,791,820
Clinical services	329,763	—	—	329,763
Reimbursements from affiliated institutions	255,941	—	—	255,941
Contributions	110,824	52,121	—	162,945
Investment income	127,918	—	—	127,918
Maryland State aid	18,855	—	—	18,855
Sales and services of auxiliary enterprises	61,364	—	—	61,364
Other revenues	65,445	—	—	65,445
Net assets released from restrictions	44,841	(44,841)	—	—
Total operating revenues	3,119,425	7,280	—	3,126,705
Operating expenses:				
Compensation and benefits	1,822,292	—	—	1,822,292
Contractual services	626,130	—	—	626,130
Supplies, materials and other	395,200	—	—	395,200
Depreciation and amortization	130,629	—	—	130,629
Travel	66,745	—	—	66,745
Interest	41,846	—	—	41,846
Total operating expenses	3,082,842	—	—	3,082,842
Excess of operating revenues over expenses	36,583	7,280	—	43,863
Nonoperating revenues, gains and losses:				
Contributions	—	20,247	46,091	66,338
Investment income	138,348	2,674	1,753	142,775
Reduction in additional minimum pension liability	22,012	—	—	22,012
Other, net	3,774	—	—	3,774
Net assets released from restrictions	5,693	(5,693)	—	—
Cumulative effect of a change in accounting principle for asset retirement obligations	(12,700)	—	—	(12,700)
Increase in net assets	193,710	24,508	47,844	266,062
Net assets at beginning of year	2,011,454	414,935	971,573	3,397,962
Net assets at end of year	$ 2,205,164	439,443	1,019,417	3,664,024

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2007 and 2006

(In thousands)

		2007	2006
Cash flows from operating activities:			
Increase in net assets	$	496,204	266,062
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation, amortization and loss on asset disposals		144,182	132,981
Contributions restricted for long-term investment		(94,975)	(65,221)
Gifts of investment real estate		(32,667)	—
Net realized and unrealized gains from investments		(439,458)	(224,840)
Reduction in minimum pension liability		—	(22,012)
Effects of changes in accounting principles		50,405	12,700
Increase in accounts receivable, net		(101,244)	(12,545)
Increase in prepaid expenses, deferred charges, other assets and interests in trusts and endowment funds held by others		(31,358)	(1,782)
(Increase) decrease in contributions receivable, net		(53,803)	24,149
Increase (decrease) in accounts payable and accrued expenses		59,748	(4,646)
Increase (decrease) in deferred revenues and other liabilities		30,306	(6,067)
Increase in payables and deferred revenues under split interest agreements		10,630	3,662
Increase in other long-term liabilities		13,013	13,559
Net cash provided by operating activities		50,983	116,000
Cash flows from investing activities:			
Purchases of investments		(4,759,759)	(3,246,304)
Proceeds from sales and maturities of investments		4,860,037	3,315,586
Purchases of property and equipment		(285,228)	(317,337)
Disbursements for student loans		(7,216)	(6,491)
Repayments of student loans		6,348	8,134
Decrease in deposits with bond trustees, net		9,822	62,258
Increase in endowments held for others		10,045	4,027
Net cash used by investing activities		(165,951)	(180,127)
Cash flows from financing activities:			
Contributions restricted for long-term investment		94,975	65,221
Proceeds from borrowings		10,836	40,788
Debt payments		(24,589)	(17,477)
Net cash provided by financing activities		81,222	88,532
Net (decrease) increase in cash and cash equivalents		(33,746)	24,405
Cash and cash equivalents at beginning of year		168,263	143,858
Cash and cash equivalents at end of year	$	134,517	168,263

See accompanying notes to financial statements.

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

(a) General

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 over 20,000 students, including approximately 11,500 full-time students and 8,500 part-time students, and produced approximately 12% of the University's operating revenues in 2007 and 2006. 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 more than 1,200 government and private sponsors. Grants, contracts and similar agreements produced approximately 57% of the University's operating revenues in 2007 and 2006. Approximately 89% of the revenues from research and related services come from departments and agencies of the United States Government. 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; these sponsors provided approximately 36%, 34%, 6% and 6%, respectively, of revenues from grants, contracts and similar agreements in 2007.

Professional medical services are provided by members of the University's faculty to patients at Johns Hopkins Hospital (Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced about 11% of the University's operating revenues in 2007 and 2006. 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 inter-entity activities and balances are eliminated for financial reporting purposes. Investments in organizations which 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 International LLC, are accounted for using the equity method. Certain amounts for 2006 have been reclassified to conform to the presentation for 2007.

The preparation of financial statements in conformity with U.S. 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. The most significant estimates and judgments affecting the University's financial statements relate to determination of the fair values of nonmarketable investments, the allowances for uncollectible accounts and contributions receivable, the provisions for self-insured liability and property damage claims, the payables and deferred revenues under split interest agreements and the obligations under defined benefit pension and postretirement plans.

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 may or 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. 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 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 acquired or placed in service.

(c) Contributions

Contributions, including unconditional promises to give, are recognized as revenues 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. Contributions received for capital projects or perpetual or term endowment funds are reported as nonoperating revenues. All other contributions are reported as operating revenues. Changes in the nature of any restrictions on contributions due to amendments to or clarifications of agreements with donors are recognized as nonoperating reclassifications of net assets in the period in which the amendments or clarifications are approved. 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-free rate for the expected period of collection. Amortization of the discount is included in contributions revenue.

(d) Cash and Cash Equivalents

Short-term investments with maturities at dates of purchase of three months 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 applicable assets. Cash equivalents include short-term U.S. Treasury securities and other highly liquid investments and are carried at cost which approximates fair value.

(e) Deposits with Bond Trustees

Deposits with bond trustees consist of debt service funds and the unexpended proceeds of certain debt. These funds are invested primarily in short-term, highly liquid securities and will be used for construction of or payment of debt service on certain facilities.

(f) Clinical Services

Clinical services revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. 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.

(g) Investments

Investments are stated at their fair values which are generally determined based on quoted market prices or estimates provided by external investment managers or other independent sources. Investments in certain real property assets are recorded at fair value based upon independent third party appraisals. Investments in private equity and venture capital and absolute return are valued at the proportionate share of estimated fair values of the underlying investments. Those fair values are estimated by the general partners or investment managers and 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 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.

Assets of pooled endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains of these funds may be used to support operations, provided that the funds have market values in excess of their historical values. The endowment investment pool payout was approximately 4.1% and 4.9% of average market values in 2007 and 2006, respectively.

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Investment income 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 of income and realized gains for pooled endowment and similar funds approved by the Board of Trustees. All unrealized gains and losses, any difference between the income and realized gains earned and the payout for pooled endowment and similar funds and income and realized gains restricted by donors are reported as nonoperating revenues.

(h) 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. At June 30, 2007 and 2006, the aggregated cost basis of capitalized software costs amounted to $109,591,000 and $91,195,000, respectively. At June 30, 2006, $51,834,000 was reported as construction in progress of capitalized costs related to the University's Enterprise Resource Planning System.

(i) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts 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.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in estimates of future receipts.

(Continued)

(j) Fair Values of Financial Instruments

Fair values of financial instruments approximate their carrying values in the financial statements, except for debt for which fair value information is provided in note 7 and loans receivable from students under loan programs of the United States Government ($28,300,000 and $25,611,000 at June 30, 2007 and 2006, respectively). A reasonable estimate of the fair value of these loans cannot be made because they are not saleable and can only be assigned to the government or its designees.

(k) 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 object and source classifications. Costs incurred by the University for services provided by these institutions are reported as operating expenses in the appropriate object classifications.

The University holds several endowment and similar funds which are designated for purposes or activities that are carried out by the Hospital. The assets of these funds are included in investments and the related income is paid to the Hospital. 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.

(l) Insurance

The University, together with other institutions, has formed captive insurance companies which 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 $54,723,000 and $55,870,000 as of June 30, 2007 and 2006, respectively.

(m) 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 $245,391,000 in 2007 and $245,392,000 in 2006. Funds received from sponsors in advance of expenditures incurred are reported as deferred revenue.

(n) 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.

(o) 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. No provision for income taxes was required for 2007 or 2006.

(p) Leases

The University conducts certain operations in leased facilities which have minimum lease obligations under noncancelable operating leases. Certain of the leases contain rent escalations, contain 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.

(q) Derivative Financial Instruments

Derivative financial instruments are measured at fair value and recognized in the balance sheets as assets or liabilities.

The University's external investment managers are authorized to use specified derivative financial instruments, including futures and forward currency contracts, in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Trustees. Futures contracts, which are commitments to buy or sell designated financial instruments at a future date for a specified price, may be used to adjust asset allocation, neutralize options in securities or construct a more efficient portfolio. The managers have made limited use of exchange-traded interest rate futures contracts. Margin requirements are met in cash; however, the managers settle their positions on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Forward currency contracts, which are agreements to exchange designated currencies at a future date at a specified rate, may be used to hedge currency exchange risk associated with investments in fixed-income securities denominated in foreign currencies and investments in equity securities traded in foreign markets. The managers settle these contracts on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Changes in the market value of the futures and forward currency contracts are included in investment income and were not significant in 2007 or 2006.

The University makes limited use of interest rate swap agreements to manage interest rate risk associated with certain variable rate debt or to adjust its debt structure. 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 does not require any collateral under these agreements generally, but collateral is required under certain specified events. The University deals only with highly rated financial institution counterparties and expects that they will meet their obligations. Changes in the market value of the interest rate swap agreements are recognized as nonoperating gains in the statement of activities and were $4,920,000 in 2007 and $9,632,000 in 2006.

(2) Applied Physics Laboratory (APL)

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 $309,029,000 and $298,712,000 at June 30, 2007 and 2006, respectively, including net investment in property, plant, and equipment of $195,974,000 and $186,127,000, respectively.

(3) Accounts Receivable and Concentration of Credit Risks

Accounts receivable, net are summarized as follows at June 30 (in thousands):

		2007	2006
Reimbursement of costs incurred under grants and contracts	$	303,496	215,825
Affiliated institutions, primarily the Hospital		32,470	31,436
Students		13,495	7,142
Others		46,092	41,198
Total research, training, students and other, less allowances of $20,723 in 2007 and $26,396 in 2006		395,553	295,601
Receivables for medical services, less allowances of $91,357 in 2007 and $85,705 in 2006		38,128	36,836
	$	433,681	332,437

The mix of gross accounts receivables for medical services from patients and third party payors consisted of the following at June 30, 2007 and 2006: commercial third parties 40% and 40%, respectively; Medicare 16% and 17%, respectively; Medicaid 12% and 14%, respectively; Blue Cross/Blue Shield 12% and 12%, respectively; and patients 20% and 17%, respectively.

(4) Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30 (in thousands):

		2007	2006
Unconditional promises scheduled to be collected in:			
Less than one year	$	65,498	17,161
One year to five years		127,909	116,337
Over five years		22,188	25,780
		215,595	159,278
Less:			
Unamortized discount (interest ranging from 2.4% to 5.1%) and allowances for uncollectible contributions		32,805	30,291
	$	182,790	128,987

At June 30, 2007 and 2006, 45% and 32%, respectively, of the gross contributions receivable were due from ten donors. Approximately 48% and 31% of contribution revenues for 2007 and 2006, respectively, were from ten donors. At June 30, 2007, the University had also been informed of bequest intentions and certain other promises to give in excess of $338,000,000. These conditional promises to give are not recognized as assets and, if they are received, will generally be restricted for specific purposes stipulated

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by the donors, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

(5) Investments

Investments are summarized as follows at June 30 (in thousands):

		2007	2006
Cash and cash equivalents	$	152,220	150,086
United States Government and agency obligations		448,084	304,727
Debt securities		155,736	403,076
Public equities		1,464,315	1,053,842
Private equity and venture capital		327,103	190,601
Real property assets		267,161	173,418
Absolute return		511,271	677,888
Other		96,879	87,479
	$	3,422,769	3,041,117

Investments are professionally managed, primarily by outside investment organizations, subject to direction and oversight by a committee of the Board of Trustees. The committee has established investment policies and 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. At June 30, 2007 and 2006, private equity and venture capital, absolute return and certain real property assets of $1,001,021,000 and $953,958,000, respectively, do not have readily determinable market values.

At June 30, 2007 and 2006, assets of endowment and similar funds, including cash and cash equivalents and investments, amounted to $2,655,382,000 and $2,218,144,000, respectively. Substantially all assets of endowment and similar funds and certain other assets are combined in a common investment pool known as the Endowment Investment Pool (EIP). Purchases and sales of shares in the EIP are made based on the market value per share at the end of the quarter during which the transaction takes place. At June 30, 2007 and 2006, assets of the EIP, including cash and cash equivalents and investments, amounted to $2,796,127,000 and $2,366,538,000, respectively.

At June 30, 2007 and 2006, other investments represent investments held by the University under deferred compensation agreements. Such amounts approximate the University’s related liabilities to employees which are included in obligations under deferred compensation agreements and other long-term liabilities.

(Continued)

Investment income is summarized as follows for the years ended June 30 (in thousands):

		2007	2006
Dividend and interest income	$	52,945	50,993
Net realized and unrealized gains		439,458	224,840
External investment management fees		(8,219)	(8,299)
Change in value of interests in trusts and endowment funds held by others		9,202	3,159
	$	493,386	270,693

Investment income is classified in the statements of activities as follows for the years ended June 30 (in thousands):

		2007	2006
Operating	$	133,590	127,918
Nonoperating		359,796	142,775
	$	493,386	270,693

At June 30, 2007, commitments to fund investments in private equity and venture capital and real property assets were $493,055,000.

(6) Investment in Property and Equipment

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

		2007	2006	Range of useful lives
Land	$	50,481	37,258	N/A
Land improvements		66,894	62,203	15 years
Buildings and leasehold improvements		1,889,883	1,723,333	10 – 40 years
Equipment and software		620,475	517,406	7 – 15 years
Library collections		186,593	179,410	25 years
Construction in progress		173,406	218,392	N/A
		2,987,732	2,738,002	
Less accumulated depreciation and amortization		1,242,510	1,113,926	
	$	1,745,222	1,624,076	

(7) Debt

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

		2007	2006
Bonds payable	$	519,500	528,968
Notes payable		139,588	140,601
Commercial paper revenue notes – tax-exempt		208,075	208,075
Commercial paper revenue notes – taxable		70,988	70,988
Capital lease obligations		4,251	3,204
	$	942,402	951,836

Bonds payable, all of which were issued by Maryland Health and Higher Educational Facilities Authority (MHHEFA), consist of the following at June 30 (in thousands):

		2007	2006
Revenue Bonds of 1983, 6.00%, due July 2007, net of unamortized discount of $70	$	—	2,100
Refunding Revenue Bonds of 1997, 5.20% to 5.625%, due July 2027, net of unamortized discount of $202 and $207		12,273	12,603
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $301 and $335		136,846	143,446
Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $269 and $320		17,774	18,210
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,338 and $1,352		84,437	84,423
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,501 and $1,531		105,223	105,193
Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $1,177 and $1,223		93,682	93,728
Revenue Bonds of 2005A, variable rate, due July 2036		69,265	69,265
	$	519,500	528,968

The bonds payable outstanding at June 30, 2007 are unsecured general obligations of the University. The loan agreements generally provide for semi-annual payments of interest and annual payments of principal, except that no principal payments are due on the Refunding Revenue Bonds of 2001B, the Revenue Bonds of 2002A or the Revenue Bonds of 2005A prior to maturity. The Revenue Bonds of 2005A bear interest at a variable rate which is reset on a weekly basis (3.72% at June 30, 2007) and provide for monthly payments of interest. 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.

Certain MHHEFA revenue bonds were advance refunded in 1988 using proceeds of an issue of bonds that was later refinanced. The net proceeds were irrevocably placed in trust pursuant to escrow agreements and used to purchase government securities which are payable as to principal and interest at such times and in such amounts as to pay all principal and interest on the refunded bonds. Accordingly, these bonds are considered to have been extinguished and neither the debt ($33,135,000 at June 30, 2007) nor the irrevocable trusts are included in the balance sheets.

Notes payable consist of the following at June 30 (in thousands):

		2007	2006
MHHEFA note due June 2013	$	5,142	5,389
MHHEFA note due November 2015		33,502	36,327
MHHEFA note due November 2020		14,277	14,898
MHHEFA note due February 2025		4,114	4,243
MHHEFA note due July 2026		5,622	5,742
Note due June 2012, 7.29%		1,304	1,514
Note due December 2019, 8.88%		64,871	67,488
Note due December 2006		—	5,000
Note due February 2014, 4.75%		8,878	—
Note due February 2044, 4.75%		1,878	—
	$	139,588	140,601

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 (4.20% at June 30, 2007) 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.

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 note due June 2012 is an unsecured general obligation of the University and is due in annual installments (with interest payable semi-annually). Under terms of the related loan agreement, the University may be required to provide security for the loan in certain circumstances.

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 aggregate annual maturities of the bonds and notes payable for the five years subsequent to June 30, 2007 are as follows: 2008, $17,050,000; 2009, $18,001,000; 2010, $19,812,000 2011, $21,121,000 and 2012, $22,437,000.

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 June 2031. 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 tax-exempt notes for a period of up to 120% of the estimated useful lives of the related assets. The expected maturity amounts for the tax-exempt commercial paper revenue notes for the five years subsequent to June 30, 2007 are: 2008, $20,481,000; 2009, $9,795,000; 2010, $8,612,000; 2011, $2,082,000 and 2012, $7,024,000. The notes outstanding at June 30, 2007 bear interest at a weighted average rate of 4.13%.

Total interest costs incurred and paid were $46,619,000 in 2007 and $44,413,000 in 2006, of which $7,451,000 in 2007 and $2,443,000 in 2006 were capitalized. Interest income of $189,000 in 2007 and $1,491,000 in 2006 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.

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, 2007.

In order to support liquidity requirements under the commercial paper revenue notes program with MHHEFA, in 2007 the University entered into standby letter of credit agreements with two commercial banks in the aggregate amount of $350,000,000. These agreements would provide funds to the University in the event that commercial paper revenue notes could not be remarketed. Advances under these agreements are unsecured and bear interest at a rate that varies based on certain specified market indices. Advances for one agreement are due in 90 days and advances for the other agreement are due in equal installments over two years. There were no outstanding borrowings under these agreements at June 30, 2007.

The University also entered into a $150,000,000 revolving credit agreement with a commercial bank in 2007. Advances under this agreement are unsecured, bear interest based on certain market indices and if not paid earlier, are due at the expiration date in December 2009. There were no borrowings outstanding at June 30, 2007.

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 which varies based on certain specified market indices. There were no borrowings outstanding on the line of credit at June 30, 2007 or 2006.

Interest Rate Swap Agreements

The University has interest rate swap agreements to reduce its interest rate risk on a portion of the commercial paper revenue notes and on the Revenue Bonds of 2005A. The agreement related to the commercial paper revenue notes matured April 2007 and provided for the University to pay a fixed rate of 5.42% and receive a variable rate based on a notional principal amount of $20,100,000. The agreement relating to the Revenue Bonds of 2005A extends through July 2036 and provides for the University to pay a fixed rate of 3.87% and receive a variable rate based on a notional principal amount of $69,265,000.

The University also uses interest rate swap agreements to adjust its debt structure in accordance with its policy guidelines. One agreement, with a notional principal amount of $15,000,000, is through

January 2009 whereby the University receives a fixed rate of 2.97% and pays a floating rate. The second agreement, also with a notional principal amount of $15,000,000, was through January 2007 whereby the University received a fixed rate of 3.10% and paid a floating rate.

In December 2005, the University 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 has an effective date of July 2007 and terminates in July 2027. The University will pay a fixed rate of 3.45% and receive a variable rate based on an initial notional amount of $12,475,000. The agreement related to the Refunding Revenue Bonds of 1998 has an effective date of July 2008 and terminates in July 2020. The University will pay a fixed rate of 3.43% and receive a variable rate based on an initial notional amount of $113,735,000.

In March 2007, the University executed another forward-starting interest rate swap to reduce its interest rate risk related to an expected tax-exempt revenue bond issuance in 2008. The swap has an effective date of July 2008 and terminates in July 2038. The University will pay a fixed rate of 3.90% and receive a variable rate based on an initial notional amount of $115,000,000.

The aggregate fair value of the University’s interest rate swap agreements as of June 30, 2007 and 2006 was $13,348,000 and $8,428,000, respectively, and is reported as other assets.

Fair Value

The estimated fair value of the University’s debt is determined based on quoted market prices for publicly traded issues and on the discounted future cash payments to be made for other issues. The discount rates used approximate current market rates for loans or groups of loans with similar maturities and credit quality. The carrying amount and estimated fair value of the University’s debt are summarized as follows at June 30 (in thousands):

	2007		2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Variable rate debt	$ 62,658	62,658	71,599	71,599
Fixed rate debt	600,681	610,330	601,174	625,157
Commercial paper revenue notes	279,063	279,063	279,063	279,063
	$ 942,402	952,051	951,836	975,819

Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of judgment. The University is not required to settle its debt obligations at fair value and settlement is not possible in some cases because of the terms under which the debt was issued.

(8) 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 obligations under deferred compensation agreements and other long-term liabilities. These advances totaled $30,224,000 and $29,638,000 at June 30, 2007 and 2006, respectively.

(9) Net Assets

Under U.S. generally accepted accounting principles for external financial reporting by not-for-profit organizations, unrestricted net assets are those which are not subject to donor-imposed restrictions. The practices used by the University for internal financial management and reporting purposes differ in certain respects from the practices prescribed for external financial reporting purposes, particularly with respect to the timing of recognition of the release of donor-imposed restrictions on contributions and related investment income and gains. In addition, certain net assets classified as unrestricted for external financial reporting purposes are designated for specific purposes or uses under various internal operating and administrative practices of the University. As a result, substantially all of the net assets classified as unrestricted as of June 30, 2007 and 2006 have been invested in property and equipment or are designated for specific uses.

Unrestricted net assets consist of the following at June 30 (in thousands):

	2007	2006
Net investment in property and equipment	$ 802,820	679,951
APL stabilization, contingency and research fund, excluding net investment in property and equipment	113,055	112,585
Funds designated for divisional and departmental support	1,592,302	1,399,495
Student loan funds	12,982	13,133
	$ 2,521,159	2,205,164

Temporarily restricted net assets consist of the following at June 30 (in thousands):

	2007	2006
Contributions designated for departmental and divisional support or facilities	$ 430,186	353,842
Split interest agreements designated for departmental and divisional support	35,547	36,201
Land subject to time and purpose restrictions	49,550	49,400
	$ 515,283	439,443

Permanently restricted net assets consist of the following at June 30 (in thousands):

		2007	2006
Perpetual endowment funds	$	1,018,459	928,800
Interests in perpetual trusts		60,546	53,898
Split interest agreements		44,781	36,719
	$	1,123,786	1,019,417

(10) Affiliated Organizations

(a) The Johns Hopkins Health System Corporation (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 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. The University and JHHS have initiated development and implementation of an Enterprise Resource Planning System (ERP), and agreed to share in the total cost of the ERP project. In 2007 and 2006, JHHS' share of the project costs incurred was $21,494,000 and $15,337,000, respectively. In 2007 and 2006, the University contributed $5,000,000 and $10,000,000, respectively, to JHHS to support certain JHHS initiatives, including but not limited to JHHS facility renovation and construction, which is reported as operating expenses in the statement of activities. In 2007, the University also contributed an additional $5,000,000 solely to support JHHS construction activities which is reported as a nonoperating item.

(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 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 by the University, aggregated $119,911,000 in 2007 and $117,722,000 in 2006 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 $41,420,000 in 2007 and $41,537,000 in 2006, and are included in operating expenses in the statements of activities. In 2006, the University contributed $7,236,000 to the Hospital limited to facilities renovations and construction which is reported as nonoperating expenses in the statement of activities.

(c) The Johns Hopkins Hospital Endowment Fund

In July 2007, the University and The Johns Hopkins Hospital Endowment Fund Incorporated (JHHEFI) entered into an agreement whereby JHHEFI transferred approximately $365,000,000 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 will receive payouts and may request withdrawals as specified in the agreement.

(d) JHMI Utilities LLC

In 2005, the University and the Hospital formed JHMI Utilities LLC to provide utility services for the east Baltimore Campus. The University and Hospital, each owning 50% of JHMI Utilities LLC, provides all of its funding, including debt service, through payments for services provided to the University and JHHS (see note 14). Utility and telecommunications services provided to the University in 2007 and 2006 were approximately $37,452,000 and $33,803,000, respectively.

(11) 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 $119,618,000 in 2007 and $119,327,000 in 2006, including $110,338,000 and $105,223,000, respectively, related to defined contribution plans. APL's defined contribution plan accounted for $36,460,000 in 2007 and $33,992,000 in 2006 of the total pension expense.

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.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) introduced a Medicare prescription-drug benefit beginning in 2006, as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. Management concluded that the University's plans are at least "actuarially equivalent" to the Medicare benefit and, accordingly, has included the federal subsidy from the Act in the normal year-end measurement process for the retiree benefit plans at June 30, 2007 and 2006. Actuarial gains and losses in 2007 and 2006 are attributable primarily to changes in the discount rate.

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, 2007 and 2006 is summarized as follows (in thousands):

	Pension plan		Postretirement plans	
	2007	**2006**	**2007**	**2006**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 258,049	280,468	176,016	216,160
Service cost	12,730	15,276	7,740	8,761
Interest cost	15,843	14,551	11,333	9,987
Plan participant contributions	—	—	3,857	3,445
Actuarial (gain) loss	462	(43,695)	12,955	(50,450)
Benefits paid	(8,628)	(8,551)	(14,531)	(11,887)
Medicare subsidies received	—	—	1,125	—
Benefit obligation at end of year	278,456	258,049	198,495	176,016
Change in plan assets:				
Fair value of plan assets at beginning of year	235,152	219,576	119,779	102,444
Actual return on plan assets	34,893	16,204	17,683	9,982
University contributions	8,386	7,923	13,748	15,795
Plan participant contributions	—	—	3,857	3,445
Benefits paid	(8,628)	(8,551)	(14,531)	(11,887)
Medicare subsidies received	—	—	1,125	—
Fair value of plan assets at end of year	269,803	235,152	141,661	119,779
Funded status	(8,653)	(22,897)	(56,834)	(56,237)
Unrecognized net actuarial loss	—	9,915	—	24,611
Unamortized prior service cost	—	1,249	—	19,157
Unrecognized transition obligation	—	—	—	10,544
Net amount recognized and included as other long-term liabilities (see note 15)	$ (8,653)	(11,733)	(56,834)	(1,925)

The accumulated benefit obligation for the pension plan was $251,740,000 at June 30, 2007 and $233,378,000 at June 30, 2006.

The net pension cost includes the following components for the years ended June 30 (in thousands):

		2007	2006
Service cost	$	12,730	15,276
Interest cost on accumulated benefit obligation		15,843	14,551
Amortization of prior service cost		272	272
Amortization of actuarial loss		—	2,275
Expected return on plan assets		(19,565)	(18,270)
	$	9,280	14,104

The postretirement benefit cost includes the following components for the years ended June 30 (in thousands):

		2007	2006
Service cost	$	7,740	8,761
Interest cost on accumulated benefit obligation		11,333	9,987
Amortization of transition obligation		1,506	1,506
Amortization of prior service cost		1,470	1,470
Amortization of actuarial loss		1,001	2,335
Expected return on plan assets		(8,576)	(7,411)
	$	14,474	16,648

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

	Pension plan		Postretirement plans	
	2007	**2006**	**2007**	**2006**
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	6.25%	6.25%	6.25%	6.25%
Rate of compensation increase	4.00	4.00	N/A	N/A
Rate of increase in health care costs for next year	N/A	N/A	9.00%	9.00%
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	6.25%	5.25%	6.25%	5.25%
Expected rate of return on plan assets	8.50	8.50	7.00	7.00
Rate of compensation increase	4.00	4.00	N/A	N/A
Rate of increase in health care costs	N/A	N/A	9.00%	10.00%

The rate of increase in health care costs was assumed to decrease to 5.5% in 2011 and to remain at that level thereafter. Assumed health care 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, 2007, would have the following effects (in thousands):

	Increase	Decrease
Total service and interest cost components	$ 2,715	(2,064)
Postretirement benefit obligation	22,615	(17,717)

Plans' Assets

The University's investment objective for the plans' assets is to meet the benefit obligations while minimizing required future University contributions. The investment strategies focus on asset class diversification, liquidity to meet benefit payments and an appropriate balance of long-term investment return and risk. Target ranges for asset allocations are determined by matching the actuarial projections of the plans' future liabilities and benefit payments with expected long-term rates of return on the assets, taking into account investment return volatility and correlations across asset classes. Plan assets are diversified across several investment managers and are generally invested in mutual funds that are selected to track broad market equity and bond indices. Investment risk is carefully controlled with plan assets rebalanced to target allocations on a periodic basis and continual monitoring of investment managers' performance relative to the investment guidelines established with each investment manager.

(Continued)

The University's target asset and actual asset allocation by category as of June 30, 2007 and 2006 are as follows:

	Target allocation	Actual allocation: Pension plan 2007	Pension plan 2006	Postretirement plans 2007	Postretirement plans 2006
United States equity securities	54%	53%	53%	50%	50%
International equity securities	11	14	12	15	13
Debt securities	35	29	32	33	34
Cash and cash equivalents	—	4	3	2	3
	100%	100%	100%	100%	100%

The weighted average expected long-term rate of return for the plans' total assets is based on the expected return of each of the above categories based on the median of the target allocation for each investment class. Based on historical experience, the University expects that the plans' asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

Cash Flows

The University expects to contribute $14,953,000 to its postretirement benefit plans in 2008, including $7,450,000 related to APL. The University expects to contribute $8,600,000 to the pension plan in 2008.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2007 and in aggregate for the five years thereafter are as follows (in thousands):

	Pension plan	Postretirement plans	Medicare Subsidies
2008	$ 9,590	10,974	1,980
2009	10,211	11,597	2,231
2010	10,869	12,217	2,471
2011	11,556	12,732	2,724
2012	12,689	13,124	3,007
2013 – 2017	84,639	71,853	14,166

(12) Functional Expense Information

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

		2007	2006
Instruction, research and clinical practice:			
Academic and support divisions	$	2,187,265	2,037,442
APL contracts		719,514	664,595
Student services		63,929	64,646
Libraries		44,948	33,071
General services and administration		224,437	213,393
Auxiliary enterprises		70,298	69,695
	$	3,310,391	3,082,842

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. Fundraising costs were not significant in 2007 or 2006.

(13) Lease Commitments

As described in note 10, 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 ending June 30, 2008.

The University leases certain other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2021, subject to renewal options in certain cases. Certain of these facilities are leased from Dome Corporation or other affiliated organizations.

The aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms of these leases are as follows at June 30 (in thousands):

		Affiliates	Others	Total
2008	$	15,140	22,554	37,694
2009		8,515	22,937	31,452
2010		8,449	18,799	27,248
2011		7,567	17,031	24,598
2012		6,861	14,464	21,325
After 2012		3,727	66,846	70,573
	$	50,259	162,631	212,890

Rental expense for the long-term operating leases was $34,717,000 for the year ended June 30, 2007.

(Continued)

(14) 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 Johns Hopkins Medical Institutions Utilities, LLC (JHMI Utilities). JHMI Utilities is equally owned by the Hospital and the University. The proceeds of the 2005B Bonds ($24,300,000) and the 2005A Bonds ($24,545,000) guaranteed by the Hospital are to finance 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 has also provided guarantees of principal and interest payments related to loans granted to JHMI Utilities under the MHHEFA Pooled Loan Program. These loans of up to $31,455,000, in addition to pooled loans of up to $23,199,000 guaranteed by the Hospital, will also be used to finance the central power plant project. The University's guarantees continue until maturity of the loans in 2013.
- 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 has guaranteed payment of up to $1,419,000 of debt obligations of Dome Corporation under terms of a credit enhancement agreement relating to financing of certain properties and, together with JHHS, has agreed to provide Dome Corporation with funds required, if any, to meet its obligations under the agreement.
- The University, through a participation agreement with an unrelated third party, has guaranteed payment of certain financing of East Baltimore Development, Inc. (EBDI) up to $4,730,000. In 2007, the University also committed to make a contribution of $10,000,000 to EBDI to assist in funding redevelopment of the area adjacent to its medical campus which is reported as an operating expense.

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 significant effect on the financial position of the University.

(15) Changes in Accounting Principles

On June 30, 2007, the University adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 required the University to recognize the funded status of its defined benefit retirement and retiree medical and life insurance plans on the balance sheet. The incremental effects of applying SFAS No. 158 on the University's balance sheet as of June 30, 2007 are as follows (in thousands):

		Before SFAS No. 158	Adjustments	After SFAS No. 158
Pension liabilities	$	12,627	(3,974)	8,653
Postretirement benefit liabilities		2,455	54,379	56,834
	$	15,082	50,405	65,487

Accordingly, the adoption of SFAS No. 158 decreased unrestricted net assets by $50,405,000. The change to unrestricted net assets consists of amounts that have not yet been recognized in net periodic benefit costs as follows: unrecognized actuarial loss of $22,703,000, unrecognized transition obligation of $9,038,000, and unrecognized prior service cost of $18,664,000. These amounts will be recognized in future years as components of net periodic pension cost.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (FIN 47); *Accounting for Conditional Asset Retirement Obligations* concerning recognition of costs related to legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets are required to be accrued. The fair value of the obligation at June 30, 2006 was $12,700,000 and was recorded as a reduction of unrestricted net assets as the cumulative effect of a change in accounting principle.