KPMG

JOHNS HOPKINS UNIVERSITY

Financial Statements

June 30, 2008 and 2007

(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 as of June 30, 2008 and 2007, 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, 2008 and 2007, 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 1(r) of the notes to the financial statements, the University adopted Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*, on June 30, 2007.

KPMG LLP

October 3, 2008

JOHNS HOPKINS UNIVERSITY

Balance Sheets

June 30, 2008 and 2007

(In thousands)

Assets		**2008**	**2007**
Cash and cash equivalents	$	220,588	134,517
Accounts receivable, net		403,673	433,681
Contributions receivable, net		195,907	182,790
Prepaid expenses, deferred charges and other assets		89,823	86,103
Student loans receivable, net		35,788	31,458
Investments		3,625,248	3,422,769
Investment in property and equipment, net		1,917,128	1,745,222
Interests in trusts and endowment funds held by others		115,056	114,937
Total assets	$	6,603,211	6,151,477
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	376,103	347,757
Deferred revenues and other liabilities		309,926	271,231
Payables and deferred revenues under split interest agreements		81,714	89,746
Debt		1,027,817	942,402
Obligations under deferred compensation agreements and other long-term liabilities		258,009	260,577
Endowment and similar funds held for purposes of Johns Hopkins Hospital and Johns Hopkins Hospital Endowment Fund		437,183	79,536
Total liabilities		2,490,752	1,991,249
Net assets:			
Unrestricted		2,407,626	2,521,159
Temporarily restricted		509,812	515,283
Permanently restricted		1,195,021	1,123,786
Total net assets		4,112,459	4,160,228
Total liabilities and net assets	$	6,603,211	6,151,477

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statement of Activities

Year ended June 30, 2008

(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 $187,615	$ 365,877	—	—	365,877
Grants, contracts and similar agreements	2,000,934	—	—	2,000,934
Clinical services	371,016	—	—	371,016
Reimbursements from affiliated institutions	299,882	—	—	299,882
Contributions	102,009	76,454	—	178,463
Investment income	145,789	—	—	145,789
Maryland State aid	23,540	—	—	23,540
Sales and services of auxiliary enterprises	77,855	—	—	77,855
Other revenues	84,314	—	—	84,314
Net assets released from restrictions	69,850	(69,850)	—	—
Total operating revenues	3,541,066	6,604	—	3,547,670
Operating expenses:				
Compensation and benefits	2,060,540	—	—	2,060,540
Contractual services	698,094	—	—	698,094
Supplies, materials and other	448,576	—	—	448,576
Depreciation and amortization	159,090	—	—	159,090
Travel	78,733	—	—	78,733
Interest	40,248	—	—	40,248
Total operating expenses	3,485,281	—	—	3,485,281
Excess of operating revenues over expenses	55,785	6,604	—	62,389
Nonoperating activities:				
Contributions	—	14,130	62,450	76,580
Investment income (loss)	(162,908)	2,425	8,785	(151,698)
Other, net	(17,172)	337	—	(16,835)
Change in benefit plans funded status	(18,205)	—	—	(18,205)
Net assets released from restrictions	28,967	(28,967)	—	—
Increase (decrease) in net assets	(113,533)	(5,471)	71,235	(47,769)
Net assets at beginning of year	2,521,159	515,283	1,123,786	4,160,228
Net assets at end of year	$ 2,407,626	509,812	1,195,021	4,112,459

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	1,844,218	—	—	1,844,218
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	3,280,979	17,429	—	3,298,408
Operating expenses:				
Compensation and benefits	1,936,210	—	—	1,936,210
Contractual services	654,709	—	—	654,709
Supplies, materials and other	450,356	—	—	450,356
Depreciation and amortization	144,194	—	—	144,194
Travel	66,200	—	—	66,200
Interest	39,922	—	—	39,922
Total operating expenses	3,291,591	—	—	3,291,591
Excess (deficiency) of operating revenues over expenses	(10,612)	17,429	—	6,817
Nonoperating activities:				
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

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(In thousands)

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (47,769)	496,204
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation, amortization and loss on asset disposals	164,956	144,182
Contributions restricted for long-term investment	(87,486)	(94,975)
Gifts of investment real estate	—	(32,667)
Net realized and unrealized losses (gains) from investments	76,841	(439,458)
Change in benefit plans funded status	18,205	50,405
Change in other operating assets and liabilities:		
Accounts receivable, net	9,856	(101,244)
Prepaid expenses, deferred charges, and other assets	(3,656)	(31,358)
Contributions receivable, net	(13,117)	(53,803)
Accounts payable and accrued expenses	(22,870)	59,748
Deferred revenues and other liablities	30,760	30,306
Investments, interests and payables related to trusts and split interest agreements	6,985	10,630
Other long-term liabilities	(1,160)	13,013
Net cash provided by operating activities	131,545	50,983
Cash flows from investing activities:		
Purchases of investments	(3,271,360)	(3,641,922)
Proceeds from sales and maturities of investments	3,002,555	3,742,200
Purchases of property and equipment	(250,686)	(285,228)
Proceeds from sale of building	7,935	—
Disbursements for student loans	(7,513)	(7,216)
Repayments of student loans	3,183	6,348
(Increase) decrease in deposits with bond trustees, net	(64)	9,822
Increase in endowments held for others	357,647	10,045
Net cash used by investing activities	(158,303)	(165,951)
Cash flows from financing activities:		
Contributions restricted for long-term investment	87,486	94,975
Proceeds from borrowings	56,952	10,836
Debt payments	(31,609)	(24,589)
Net cash provided by financing activities	112,829	81,222
Net increase (decrease) in cash and cash equivalents	86,071	(33,746)
Cash and cash equivalents at beginning of year	134,517	168,263
Cash and cash equivalents at end of year	$ 220,588	134,517

See accompanying notes to financial statements.

(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 over 20,000 students, including approximately 12,000 full-time students and 8,000 part-time students, and produced approximately 13% and 12%, respectively, of the University's operating revenues in fiscal 2008 and 2007. 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 1,600 government and private sponsors. Grants, contracts and similar agreements produced approximately 56% and 57% of the University's operating revenues in fiscal 2008 and 2007, respectively. Approximately 86% 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 35%, 36%, 6% and 6%, respectively, of revenues from grants, contracts and similar agreements in 2008 and 36%, 34%, 6%and 6%, respectively, in 2007.

Professional medical services are provided by members of the University's faculty to patients at The Johns Hopkins Hospital (Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced approximately 10% and 11% of the University's operating revenues in fiscal 2008 and 2007, respectively. 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 2007 have been reclassified to conform to the presentation for 2008.

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. 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 liability 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.

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 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.

(Continued)

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 respective 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. Deposits with bond trustees are included in prepaid expenses, deferred charges and other assets in the balance sheets as of June 30, 2008 and 2007.

(f) 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.

(g) Investments and Investment Income

Investments are stated at their fair values which are 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 4.5% and 4.1% of average market values in fiscal 2008 and 2007, respectively.

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 for pooled endowment and similar funds approved by the Board of Trustees. Unrealized gains and losses of working capital investments, 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.

(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.

(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.

(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 ($29,404,000 and $28,300,000 as of June 30, 2008 and 2007, 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.

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 purposes of Johns Hopkins Hospital and JHHEFI.

(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 $54,936,000 and $54,723,000 as of June 30, 2008 and 2007, 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 $246,458,000 in 2008 and $245,391,000 in 2007. Funds received from sponsors in advance of expenditures incurred are reported as deferred revenue.

(Continued)

(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 fiscal 2008 or 2007.

(p) Leases

The University conducts certain operations in leased facilities which have minimum lease obligations under noncancelable operating leases. Certain 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.

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.

(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.

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. The aggregate fair value of the University’s interest rate swap agreements as of June 30, 2008 and 2007 was a liability of $3,313,000 and an asset of $13,348,000, respectively, and is reported as other liabilities and other assets, respectively. Changes in the fair value of the interest rate swap agreements are reported as nonoperating activities. The change in value was a loss of approximately $16,661,000 in fiscal 2008 and a gain of approximately $4,920,000 in fiscal 2007.

(r) Statement of Cash Flows

Significant non-cash transactions in fiscal 2008 consisted of capital lease obligations related to building and leasehold improvements of approximately $59,508,000, an acquisition of a building and related reduction in accounts receivable of approximately $20,150,000 and payables related to investment securities of approximately $45,300,000.

(s) Recently Issued Accounting Pronouncements

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 158). SFAS 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 adoption of SFAS 158 decreased unrestricted net assets by $50,405,000.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109* (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity’s financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and financial statement disclosures. FIN 48 was effective for the University on July 1, 2007, and had no significant impact on the University’s financial statements.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. This statement does not require any new fair value measures. SFAS 157 will be effective for the University in fiscal year 2009. The University is currently evaluating the impact SFAS 157 will have on its financial statements.

In August 2008, the FASB issued FASB Staff Position No.117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management Institutional Funds Act (UPMIFA). The FSP also requires additional disclosures about endowments (both donor-restricted funds and board-designated funds) for all organizations, including those that are not yet subject to an enacted version of UPMIFA. The endowment disclosure provisions of FSP 117-1 are effective for the University for fiscal year 2009, while the net asset classification provisions are dependent upon the enactment of UPMIFA in Maryland.

In May 2008, the FASB issued FASB Staff Position SOP 94-3 *OMNIBUS Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations* (FSP 94-3), which will be effective for the University for fiscal year 2009. FSP 94-3 makes several changes to the guidance on consolidation and the equity method accounting in AICPA Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. The University is currently evaluating the impact FSP 94-3 will have on its financial statements.

(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 $332,197,000 and $309,029,000 as of June 30, 2008 and 2007, respectively, including net investment in property, plant, and equipment of $239,869,000 and $195,974,000, respectively.

(3) Accounts Receivable and Concentration of Credit Risks

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

		2008	2007
Reimbursement of costs incurred under grants and contracts	$	283,853	303,496
Affiliated institutions, primarily the Hospital		37,889	32,470
Students		13,453	13,495
Others		30,357	46,092
Total research, training, students and other, less allowances of $22,541 in 2008 and $20,723 in 2007		365,552	395,553
Receivables for medical services, less allowances of $89,850 in 2008 and $91,357 in 2007		38,121	38,128
	$	403,673	433,681

Approximately 78% and 83%, respectively, of reimbursement of costs incurred under grants and contracts as of June 30, 2008 and 2007 were receivables from agencies or departments of the United States Government.

The mix of gross accounts receivable for medical services from patients and third party payors consisted of the following as of June 30, 2008 and 2007: commercial third parties 39% and 40%, respectively; Medicare 16% and 16%, respectively; Medicaid 13% and 12%, respectively; Blue Cross/Blue Shield 12% and 12%, respectively; and patients 20% and 20%, respectively.

(4) Contributions Receivable

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

		2008	2007
Unconditional promises scheduled to be collected in:			
Less than one year	$	87,632	65,498
One year to five years		129,479	127,909
Over five years		10,877	22,188
		227,988	215,595
Less:			
Unamortized discount (interest ranging from 2.4% to 5.1%) and allowances for uncollectible contributions		32,081	32,805
	$	195,907	182,790

(Continued)

As of June 30, 2008 and 2007, 41% and 45%, respectively, of the gross contributions receivable were due from ten donors. Approximately 24% and 48% of contribution revenues for fiscal 2008 and 2007, respectively, were from ten donors. As of June 30, 2008, 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

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

	2008	2007
Cash and cash equivalents	$ 48,437	152,220
United States Government and agency obligations	487,257	448,084
Debt securities	157,823	155,736
Public equities	1,384,590	1,464,315
Private equity and venture capital	430,286	327,103
Real property assets	375,536	267,161
Absolute return	663,529	511,271
Other	77,790	96,879
	$ 3,625,248	3,422,769

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. As of June 30, 2008 and 2007, private equity and venture capital, absolute return and certain real property assets of $1,300,433,000 and $1,001,021,000, respectively, do not have readily determinable market values.

At June 30, 2008 and 2007, assets of endowment and similar funds, excluding assets held for the Hospital and JHHEFI, and including cash and cash equivalents and investments, amounted to $2,475,722,000 and $2,575,846,000, respectively. Certain assets of endowment and similar funds are combined in a common investment pool known as the Endowment Investment Pool (EIP). Each individual fund purchases or disposes of shares on the basis of the market value per share at the end of the quarter during which the transaction takes place. At June 30, 2008 and 2007, assets of the EIP, including cash and cash equivalents and investments, and including assets held for JHHEFI, amounted to $3,075,185,000 and $2,796,127,000, respectively.

At June 30, 2008 and 2007, 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 obligations under deferred compensation agreements and other long-term liabilities.

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

		2008	2007
Dividend and interest income	$	79,341	52,945
Net realized and unrealized gains (losses)		(67,979)	439,458
External investment management fees		(8,407)	(8,219)
Change in value of interests in trusts and endowment funds held by others		(8,864)	9,202
	$	(5,909)	493,386

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

		2008	2007
Operating	$	145,789	133,590
Nonoperating		(151,698)	359,796
	$	(5,909)	493,386

At June 30, 2008, commitments for purchases of investments were approximately $722,380,000, which are likely to be funded through 2015.

(6) Investment in Property and Equipment

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

		2008	2007	Range of Useful Lives
Land	$	50,481	50,481	N/A
Land improvements		78,259	66,894	15 years
Buildings and leasehold improvements		2,126,838	1,889,883	10 – 40 years
Equipment		527,359	510,884	7 – 15 years
Capitalized software costs		103,336	109,591	3 – 10 years
Library collections		194,013	186,593	25 years
Construction in progress		161,532	173,406	N/A
		3,241,818	2,987,732	
Less accumulated depreciation and amortization		1,324,690	1,242,510	
	$	1,917,128	1,745,222	

(Continued)

(7) Debt

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

	2008	2007
Bonds payable	$ 509,859	519,500
Notes payable	132,120	139,588
Commercial paper revenue notes – tax-exempt	253,660	208,075
Commercial paper revenue notes – taxable	70,988	70,988
Capital lease obligations (see note 13)	61,190	4,251
	$ 1,027,817	942,402

Bonds and Notes Payable

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

	2008	2007
Refunding Revenue Bonds of 1997, 5.20% to 5.625%, due July 2027, net of unamortized discount of $196 and $202	$ 11,924	12,273
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $269 and $301	129,845	136,846
Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $219 and $269	15,484	17,774
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,324 and $1,338	84,451	84,437
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,470 and $1,501	105,254	105,223
Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $1,131 and $1,177	93,636	93,682
Revenue Bonds of 2005A, variable rate, due July 2036	69,265	69,265
	$ 509,859	519,500

The bonds payable outstanding as of June 30, 2008 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 (1.40% at June 30, 2008) 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,

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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 ($17,585,000 as of June 30, 2008) nor the irrevocable trusts are included in the balance sheets.

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

		2008	2007
MHHEFA note due June 2013	$	4,896	5,142
MHHEFA note due November 2015		30,473	33,502
MHHEFA note due November 2020		13,612	14,277
MHHEFA note due February 2025		3,967	4,114
MHHEFA note due July 2026		5,495	5,622
Note due June 2012, 5.34%		1,078	1,304
Note due December 2019, 8.88%		62,023	64,871
Note due February 2014, 4.75%		8,698	8,878
Note due February 2044, 4.75%		1,878	1,878
	$	132,120	139,588

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 (2.75% at June 30, 2008) 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.

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 2033. 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 notes outstanding at June 30, 2008 bear interest at a weighted average rate of 1.68%.

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Interest Costs

Total interest costs incurred and paid were $43,841,000 in 2008 and $46,619,000 in 2007, of which $4,718,000 in 2008 and $7,451,000 in 2007 were capitalized. Interest income of $189,000 in 2007 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, 2008.

Other Credit Agreements

In order to support liquidity requirements under the commercial paper revenue notes program with MHHEFA, 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 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 borrowings under these agreements during fiscal 2008 and 2007.

The University also has a $150,000,000 revolving credit agreement with a commercial bank. 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 during fiscal 2008 and 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 market indices. There were no borrowings on the line of credit during fiscal 2008 and 2007.

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. Under one agreement, maturing in January 2009, with a notional principal amount of $15,000,000, the University receives a fixed rate of 2.97% and pays a floating rate. Under a second agreement, which matured in January 2007, also with a notional principal amount of $15,000,000, the University received a fixed rate of 3.10% and paid a floating rate.

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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 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 based on an initial notional amount of $12,475,000. 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 based on an initial notional amount of $113,735,000.

In March 2007, the University executed another forward-starting interest rate swap agreement to reduce its interest rate risk related to the Series 2008A Bonds discussed below. The agreement had an effective date of July 2008 and terminates in July 2038. The University pays a fixed rate of 3.90% and receives a variable rate based on an initial notional amount of $115,000,000.

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):

		2008		2007	
		Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
Variable rate debt	$	58,442	58,442	62,658	62,658
Fixed rate debt		644,727	672,090	600,681	610,330
Commercial paper revenue notes		324,648	324,648	279,063	279,063
	$	1,027,817	1,055,180	942,402	952,051

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.

Subsequent Debt Issuance

On August 7, 2008, the University, through MHHEFA, issued fixed rate tax-exempt bonds of $129,880,000 (Series 2008A) and variable rate tax-exempt bonds of $125,855,000 (Series 2008B). Proceeds from the Series 2008B Bonds were used to advance refund the Series 1997 and 1998 Bonds. These funds were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the advanced refunded Series 1997 and 1998 Bonds. In conjunction with the creation of the trust, MHHEFA released the University from its obligation relating to the Series 1997 and 1998 Bonds. As a result of this refunding, the University will recognize a loss of approximately $2,324,000 in fiscal 2009 which reflects prepayment costs as well as the write-off of unamortized bond issuance costs and original issue discount and premium associated with the Series 1997 and 1998 Bonds. The proceeds of the Series 2008A Bonds will be used to finance construction and renovations of facilities, as well as refinance commercial paper revenue notes of $49,000,000.

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Annual Principal Payments

The following table summarizes the aggregate annual maturities of bonds payable, notes payable and commercial paper revenue notes, after giving effect to the issuance of the Series 2008A and 2008B Bonds, for the five years subsequent to June 30, 2008 (in thousands):

	Bonds Payable	Notes Payable	Commercial Paper Notes	Total
2009	$ 9,950	8,051	9,114	27,115
2010	11,150	8,662	12,610	32,422
2011	11,800	9,321	1,938	23,059
2012	12,405	10,032	2,082	24,519
2013	16,205	14,144	9,963	40,312

(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 $31,618,000 and $30,224,000 as of June 30, 2008 and 2007, respectively.

(9) Net Assets

Under 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, 2008 and 2007 have been invested in property and equipment or are designated for specific uses.

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

	2008	2007
Net investment in property and equipment	$ 889,311	802,820
APL stabilization, contingency and research fund, excluding net investment in property and equipment	92,328	113,055
Funds designated for divisional and departmental support	1,412,940	1,592,302
Student loan funds	13,047	12,982
	$ 2,407,626	2,521,159

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

	2008	2007
Contributions designated for departmental and divisional support	$ 279,586	281,626
Contributions designated for facilities	134,133	148,560
Split interest agreements designated for departmental and divisional support	42,493	35,547
Land subject to time and purpose restrictions	53,600	49,550
	$ 509,812	515,283

Income on permanently restricted net assets can be used for the following as of June 30 (in thousands):

	2008	2007
Contributions designated for departmental and divisional support	$ 990,277	932,513
Contributions designated for student aid	204,744	191,273
	$ 1,195,021	1,123,786

(10) Affiliated Organizations

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

	2008	2007
Johns Hopkins Health System	$ 16,871	19,497
Johns Hopkins Hospital	175,249	163,572
Other Johns Hopkins entities	79,991	68,608
Other affiliated medical institutions	27,771	27,813
	$ 299,882	279,490

(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.

In fiscal 2008 and 2007, 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 both fiscal 2008 and 2007 solely to support JHHS construction activities which are reported as nonoperating charges 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 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 $119,469,000 in fiscal 2008 and $112,700,000 in fiscal 2007 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 $39,388,000 in fiscal 2008 and $38,566,000 in fiscal 2007, and are included in operating expenses in the statements of activities.

(c) 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 will receive payouts and may request withdrawals as specified in the agreement. The assets are included in investments in the balance sheet, and a corresponding liability is included in endowment and similar funds held for purposes of Johns Hopkins Hospital and Johns Hopkins Hospital Endowment Fund.

(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, provide all of its funding, including debt service, through payments for services received (see note 14). Utility and telecommunications services provided to the University in fiscal 2008 and 2007 were approximately $34,941,000 and $33,267,000, respectively.

(e) Jointly-Owned Entities

As of June 30, 2008 and 2007, the University and JHHS jointly own several entities which are accounted for on the equity method. The University's aggregate investment in these joint ventures was approximately $43,393,000 and $32,869,000 as of June 30, 2008 and 2007, respectively. Equity in earnings of affiliates aggregated approximately $10,524,000 in fiscal 2008 and $12,760,000 in fiscal 2007.

Although the University's ownership interest in each of these 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, 2008 and 2007, respectively (in thousands):

	2008		2007	
	Total	**University Interest**	**Total**	**University Interest**
Assets	$ 489,266	199,488	451,546	191,773
Liabilities	349,291	156,095	348,123	158,904
Operating revenues	970,035	362,757	906,290	345,542
Operating expenses	848,280	352,233	836,741	332,782

(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 $129,705,000 in fiscal 2008 and $122,050,000 in fiscal 2007, including $121,263,000 and $112,375,000, respectively, related to defined contribution plans. APL's defined contribution plan accounted for $39,449,000 in fiscal 2008 and $36,460,000 in fiscal 2007 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 as of June 30, 2008 and 2007. Actuarial gains and losses in 2008 and 2007 are attributable primarily to changes in the discount rate.

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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, 2008 and 2007 is summarized as follows (in thousands):

	Pension plan		Postretirement plans	
	2008	**2007**	**2008**	**2007**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 278,456	258,049	198,495	176,016
Service cost	13,125	12,730	8,185	7,740
Interest cost	17,174	15,843	12,093	11,333
Plan participant contributions	—	—	4,389	3,857
Amendments	450	—	—	—
Actuarial (gain) loss	(20,016)	462	(13,943)	12,955
Benefits paid	(8,869)	(8,628)	(14,885)	(14,531)
Medicare subsidies received	—	—	952	1,125
Benefit obligation at end of year	280,320	278,456	195,286	198,495
Change in plan assets:				
Fair value of plan assets at beginning of year	269,803	235,152	141,661	119,779
Actual return on plan assets	(13,988)	34,893	(9,295)	17,683
University contributions	9,031	8,386	15,072	13,748
Plan participant contributions	—	—	4,389	3,857
Benefits paid	(8,869)	(8,628)	(14,885)	(14,531)
Medicare subsidies received	—	—	952	1,125
Fair value of plan assets at end of year	255,977	269,803	137,894	141,661
Funded status recognized as as other long-term liabilities	$ (24,343)	(8,653)	(57,392)	(56,834)
Cumulative amounts recognized in unrestricted net assets:				
Net gain (loss)	$ (11,494)	4,951	(32,251)	(27,654)
Prior service cost	(1,116)	(977)	(16,217)	(17,687)
Transition obligation	—	—	(7,532)	(9,038)
Amount not yet recognized as pension or postretirement benefit cost	$ (12,610)	3,974	(56,000)	(54,379)

The accumulated benefit obligation for the pension plan was $255,731,000 as of June 30, 2008 and $251,740,000 at June 30, 2007.

The table below reflects the changes in plan assets and benefits obligations recognized as a nonoperating item in 2008 (in thousands):

		Pension Plan	Postretirement Plans
Net loss for the year	$	16,445	5,419
Prior service cost		450	—
Amortization of net transition obligation		—	(1,506)
Amortization of prior service cost		(311)	(1,470)
Amortization of net loss		—	(822)
Net loss recognized in nonoperating activities	$	16,584	1,621

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense during 2009 (in thousands):

		Pension Plan	Postretirement Plans
Net loss	$	—	820
Prior service cost		279	1,395
Transition obligation		—	1,506
	$	279	3,721

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

		2008	2007
Service cost	$	13,125	12,730
Interest cost on accumulated benefit obligation		17,174	15,843
Amortization of prior service cost		311	272
Expected return on plan assets		(22,473)	(19,565)
	$	8,137	9,280

(Continued)

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

		2008	2007
Service cost	$	8,185	7,740
Interest cost on accumulated benefit obligation		12,093	11,333
Amortization of transition obligation		1,506	1,506
Amortization of prior service cost		1,470	1,470
Amortization of actuarial loss		822	1,001
Expected return on plan assets		(10,067)	(8,576)
	$	14,009	14,474

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

	Pension plan		Postretirement plans	
	2008	**2007**	**2008**	**2007**
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	6.75%	6.25%	6.75%	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%	6.25%	6.25%	6.25%
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%	9.00%

The rate of increase in health care costs was assumed to decrease to 5.0% in 2016 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, 2008, would have the following effects (in thousands):

		Increase	Decrease
Total service and interest cost components	$	2,471	(1,918)
Postretirement benefit obligation		18,465	(14,901)

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.

The University's target asset and actual asset allocation by category as of June 30, 2008 and 2007 are as follows:

		Actual allocation			
	Target	Pension plan		Postretirement plans	
	allocation	2008	2007	2008	2007
Equity securities	65%	66%	67%	60%	65%
Debt securities	35	31	29	39	33
Cash and cash equivalents	—	3	4	1	2
	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 $14,761,000 to its postretirement benefit plans in 2009, including $7,898,000 related to APL. The University expects to contribute $10,000,000 to the pension plan in 2009.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2008 and in aggregate for the five years thereafter are as follows (in thousands):

	Pension plan	Postretirement plans	Medicare subsidies
2009	$ 10,604	11,843	1,969
2010	11,257	12,633	2,198
2011	11,925	13,333	2,459
2012	13,013	14,044	2,776
2013	14,331	14,902	3,138
2014 – 2018	93,327	88,725	19,906

(12) Functional Expense Information

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

		2008	2007
Instruction, research and clinical practice:			
Academic and support divisions	$	2,266,884	2,148,727
APL contracts		757,519	700,714
Student services		68,898	66,213
Libraries		32,716	34,309
General services and administration		268,511	251,750
Auxiliary enterprises		90,753	89,878
	$	3,485,281	3,291,591

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 fiscal year 2008 or 2007.

(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, 2009.

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 as of June 30, 2008 (in thousands):

		Affiliates	Others	Total
2009	$	11,839	22,521	34,360
2010		8,319	18,378	26,697
2011		7,602	16,660	24,262
2012		7,136	14,090	21,226
2013		1,206	11,577	12,783
After 2013		2,684	49,113	51,797
	$	38,786	132,339	171,125

Rental expense for the long-term operating leases was $39,758,000 in fiscal year 2008 and $34,717,000 in fiscal year 2007.

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, 2008 (in thousands):

2009	$	5,461
2010		3,945
2011		3,859
2012		3,975
2013		4,094
After 2013		77,122
Minimum lease payments		98,456
Less imputed interest		(37,266)
Present value of minimum lease payments	$	61,190

As of June 30, 2008, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases and included in property and equipment amounted to $65,100,000 and $2,500,000, respectively.

(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 financing 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 2037.
- 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 $28,100,000, in addition to pooled loans of up to $26,160,000 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 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 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.

(Continued)

- 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.