KPMG

# JOHNS HOPKINS UNIVERSITY

Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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 described in notes 1(r), 6, and 11, the University adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* as amended and Financial Accounting Standards Board Staff Position FAS 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*, effective July 1, 2008.

KPMG LLP

October 25, 2009

**JOHNS HOPKINS UNIVERSITY**

Balance Sheets

June 30, 2009 and 2008

(In thousands)

| **Assets** | | **2009** | **2008** |
|---|---|---|---|
| Cash and cash equivalents | $ | 188,119 | 220,588 |
| Accounts receivable, net | | 447,266 | 403,673 |
| Contributions receivable, net | | 227,994 | 195,907 |
| Prepaid expenses, deferred charges and other assets | | 100,249 | 89,321 |
| Student loans receivable, net | | 36,015 | 35,788 |
| Deposits with bond trustees | | 11,568 | 502 |
| Investments | | 3,338,643 | 3,625,248 |
| Investment in property and equipment, net | | 1,987,034 | 1,917,128 |
| Interests in trusts and endowment funds held by others | | 90,637 | 115,056 |
| Total assets | $ | 6,427,525 | 6,603,211 |
| **Liabilities and Net Assets** | | | |
| Accounts payable and accrued expenses | $ | 363,846 | 376,103 |
| Deferred revenues and other liabilities | | 316,027 | 309,926 |
| Payables and deferred revenues under split interest agreements | | 62,120 | 81,714 |
| Debt | | 1,531,602 | 1,027,817 |
| Obligations under deferred compensation agreements and other long-term liabilities | | 334,555 | 258,009 |
| Endowment and similar funds held for others | | 340,687 | 437,183 |
| Total liabilities | | 2,948,837 | 2,490,752 |
| Net assets: | | | |
| Unrestricted | | 1,425,428 | 2,407,626 |
| Temporarily restricted | | 829,553 | 509,812 |
| Permanently restricted | | 1,223,707 | 1,195,021 |
| Total net assets | | 3,478,688 | 4,112,459 |
| Total liabilities and net assets | $ | 6,427,525 | 6,603,211 |

See accompanying notes to financial statements.

**JOHNS HOPKINS UNIVERSITY**

Statement of Activities

Year ended June 30, 2009

(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 $197,223 | $ 389,467 | — | — | 389,467 |
| Grants, contracts and similar agreements | 2,189,150 | — | — | 2,189,150 |
| Clinical services | 407,051 | — | — | 407,051 |
| Reimbursements from affiliated institutions | 344,087 | — | — | 344,087 |
| Contributions | 86,675 | 110,920 | — | 197,595 |
| Investment return | 145,420 | — | — | 145,420 |
| Maryland State aid | 20,974 | — | — | 20,974 |
| Sales and services of auxiliary enterprises | 82,335 | — | — | 82,335 |
| Other revenues | 101,909 | — | — | 101,909 |
| Net assets released from restrictions | 77,166 | (77,166) | — | — |
| Total operating revenues | 3,844,234 | 33,754 | — | 3,877,988 |
| Operating expenses: | | | | |
| Compensation and benefits | 2,205,954 | — | — | 2,205,954 |
| Contractual services | 801,228 | — | — | 801,228 |
| Supplies, materials and other | 477,725 | — | — | 477,725 |
| Depreciation and amortization | 172,138 | — | — | 172,138 |
| Travel | 85,256 | — | — | 85,256 |
| Interest | 47,561 | — | — | 47,561 |
| Total operating expenses | 3,789,862 | — | — | 3,789,862 |
| Excess of operating revenues over expenses | 54,372 | 33,754 | — | 88,126 |
| Nonoperating activities: | | | | |
| Contributions | — | 24,389 | 55,665 | 80,054 |
| Investment return | (379,401) | (285,533) | (27,084) | (692,018) |
| Other, net | (19,922) | (196) | 105 | (20,013) |
| Change in benefit plans funded status other than net periodic cost | (89,920) | — | — | (89,920) |
| Net assets released from restrictions | 10,048 | (10,048) | — | — |
| Increase (decrease) in net assets before reclassification | (424,823) | (237,634) | 28,686 | (633,771) |
| Reclassification of net assets under FSP 117-1 | (557,375) | 557,375 | — | — |
| Increase (decrease) in net assets | (982,198) | 319,741 | 28,686 | (633,771) |
| Net assets at beginning of year | 2,407,626 | 509,812 | 1,195,021 | 4,112,459 |
| Net assets at end of year | $ 1,425,428 | 829,553 | 1,223,707 | 3,478,688 |

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 $180,348 | $ 373,144 | — | — | 373,144 |
| 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 return | 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 | 3,548,333 | 6,604 | — | 3,554,937 |
| Operating expenses: | | | | |
| Compensation and benefits | 2,060,540 | — | — | 2,060,540 |
| Contractual services | 729,688 | — | — | 729,688 |
| Supplies, materials and other | 424,249 | — | — | 424,249 |
| Depreciation and amortization | 159,090 | — | — | 159,090 |
| Travel | 78,733 | — | — | 78,733 |
| Interest | 40,248 | — | — | 40,248 |
| Total operating expenses | 3,492,548 | — | — | 3,492,548 |
| Excess of operating revenues over expenses | 55,785 | 6,604 | — | 62,389 |
| Nonoperating activities: | | | | |
| Contributions | — | 14,130 | 62,450 | 76,580 |
| Investment return | (162,908) | 2,425 | 8,785 | (151,698) |
| Other, net | (17,172) | 337 | — | (16,835) |
| Change in benefit plans funded status other than net periodic cost | (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**

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands)

| | | 2009 | 2008 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Decrease in net assets | $ | (633,771) | (47,769) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | | |
| Depreciation, amortization and loss on asset disposals | | 176,737 | 164,956 |
| Gain on sale of property | | (19,010) | — |
| Contributions restricted for long-term investment | | (77,367) | (87,486) |
| Net realized and unrealized losses from investments | | 584,729 | 76,841 |
| Net unrealized losses from swaps | | 11,479 | 16,661 |
| Change in benefit plans funded status | | 89,920 | 18,205 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | | (43,593) | (3,492) |
| Prepaid expenses, deferred charges, and other assets | | (10,928) | (3,656) |
| Contributions receivable, net | | (32,087) | (13,117) |
| Accounts payable and accrued expenses | | 20,510 | (26,183) |
| Deferred revenues and other liabilities | | 14,036 | 30,760 |
| Interests and payables related to trusts and split interest agreements | | (3,845) | 6,985 |
| Other long-term liabilities | | 782 | (1,160) |
| Net cash provided by operating activities | | 77,592 | 131,545 |
| Cash flows from investing activities: | | | |
| Purchases of investments | | (4,950,221) | (3,271,360) |
| Proceeds from sales and maturities of investments | | 4,512,663 | 3,002,555 |
| Purchases of property and equipment | | (244,727) | (250,686) |
| Proceeds from sale of property | | 11,075 | 7,935 |
| Disbursements for student loans | | (4,354) | (7,513) |
| Repayments of student loans | | 4,127 | 3,183 |
| Increase in deposits with bond trustees, net | | (11,066) | (64) |
| (Decrease) increase in endowments held for others | | (7,812) | 357,647 |
| Net cash used by investing activities | | (690,315) | (158,303) |
| Cash flows from financing activities: | | | |
| Contributions restricted for long-term investment | | 77,367 | 87,486 |
| Proceeds from borrowings | | 708,168 | 56,952 |
| Advanced refinancing of debt | | (174,855) | — |
| Debt payments | | (30,426) | (31,609) |
| Net cash provided by financing activities | | 580,254 | 112,829 |
| Net (decrease) increase in cash and cash equivalents | | (32,469) | 86,071 |
| Cash and cash equivalents at beginning of year | | 220,588 | 134,517 |
| Cash and cash equivalents at end of year | $ | 188,119 | 220,588 |

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 12% and 13%, respectively, of the University’s operating revenues in fiscal 2009 and 2008. The full-time students are divided about equally between graduate level (including postdoctoral) and undergraduate level. Students are drawn from a broad geographic area, including most of the states in the United States and numerous foreign countries. The majority of the part-time students are graduate level students from the Baltimore-Washington, D.C. area.

Research and related services (e.g., research training) are provided through approximately 1,950 government and private sponsors. Grants, contracts and similar agreements produced approximately 56% of the University’s operating revenues in fiscal 2009 and 2008. 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 33%, 35%, 8% and 6%, respectively, of revenues from grants, contracts and similar agreements in fiscal 2009 and 35%, 36%, 6% and 6%, respectively, in fiscal 2008.

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 11% and 10% of the University’s operating revenues in fiscal 2009 and 2008, 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 fiscal 2008 have been reclassified to conform with the presentation for fiscal 2009.

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 liabilities and property damage claims, payables and deferred revenues under split interest agreements, and the actuarial assumptions used to determine obligations under defined benefit pension and postretirement plans.

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.

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

### *(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 recorded at fair value and 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 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 in government and agency obligations, debt securities and public equities are stated at fair value, which are determined primarily based on quoted market prices. Investments in private equity and venture capital, certain real property assets, and absolute return funds (collectively, alternative investments) are stated at estimated fair value based on the funds' net asset values or their equivalents, as estimated by the general partners or investment managers. Investments in certain real property assets are recorded at fair value based upon independent third party appraisals. The fair values estimated by the general partners or investment managers are reviewed and evaluated by the University's investment office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant.

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

Investment 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 Interests in Trusts*

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

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

### *(j) Affiliated Institutions*

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

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

### *(k) 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 $59,277,000 and $54,936,000 as of June 30, 2009 and 2008, respectively.

### *(l) 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 $257,475,000 in fiscal 2009 and $246,458,000 in fiscal 2008. Funds received from sponsors in advance of expenditures incurred are reported as deferred revenue.

### *(m) 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.



(Continued)

***(n) Income Taxes***

The University is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. No provision for income taxes was required for fiscal 2009 or 2008.

***(o) Leases***

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

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

***(p) Derivative Financial Instruments***

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 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 derivative contracts are included in investment revenue.

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 is not generally required to post any collateral under these agreements, but collateral is required under certain specified events. As of June 30, 2009 and 2008, there was no posted collateral for these agreements.

### *(q) Statement of Cash Flows*

There were no significant noncash transactions in fiscal 2009. Significant noncash 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.

### *(r) New Accounting Pronouncements*

Effective July 1, 2008, the University adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, as amended (Statement 157). Statement 157 defines fair value, requires expanded disclosures about fair value measurements, and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuations of an asset or liability at the measurement date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement 157 prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The adoption of Statement 157 did not have a significant impact on the University’s net assets.

Effective June 30, 2009, the University adopted Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, to its alternative investments. This guidance amends Statement 157 and permits, as a practical expedient, fair value of investments within its scope to be estimated using net asset value per share or its equivalent.

In August 2008, the FASB issued FASB Staff Position 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 the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act). UPMIFA was signed into law in Maryland on April 14, 2009 with an immediate effective date and the University adopted FSP 117-1 effective July 1, 2008. FSP 117-1 required reclassification of $557,375,000 of accumulated gains on donor-restricted endowment funds from unrestricted net assets to temporarily restricted net assets until appropriated for expenditure by the University’s Board of Trustees. FSP 117-1 also requires additional disclosure about endowments for all organizations (see note 11).

In May 2009, the FASB issued Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. Statement 165 also requires the disclosure of the date through which an entity has evaluated subsequent events. The University adopted Statement 165 in fiscal 2009 and evaluated subsequent events through October 25, 2009, which is the date the financial statements were available for issuance.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (Statement 161). Statement 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement No. 133 have been applied, and the impact that hedges have on the entity's financial position, financial performance, and cash flows. The University will adopt the provisions of Statement 161 in fiscal 2010.

In December 2008, the FASB issued Staff Position FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1), which will be effective for the University for fiscal year 2010. FSP 132(R)-1 requires the University to disclose information about fair value measurements of pension and postretirement plan assets that would be similar to the fair value measurement disclosures required by Statement 157.

**(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 \$329,446,000 and \$332,197,000 as of June 30, 2009 and 2008, respectively, including net investment in property and equipment of $256,066,000 and $239,869,000, respectively, and funds functioning as endowment of $56,214,000 and $74,345,000, respectively.

## (3) Accounts Receivable

Accounts receivable, net is summarized as follows as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Reimbursement of costs incurred under grants and contracts | $ | 315,322 | 283,853 |
| Affiliated institutions, primarily the Hospital | | 47,783 | 37,889 |
| Students | | 13,214 | 13,453 |
| Others | | 28,790 | 30,357 |
| Total research, training, students and other, less allowances of $22,609 in 2009 and $22,541 in 2008 | | 405,109 | 365,552 |
| Receivables for medical services, less allowances of $92,364 in 2009 and $89,850 in 2008 | | 42,157 | 38,121 |
| | $ | 447,266 | 403,673 |

Approximately 82% and 78%, respectively, of reimbursement of costs incurred under grants and contracts as of June 30, 2009 and 2008 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, 2009 and 2008: commercial third parties 40% and 39%, respectively; Medicare 18% and 16%, respectively; Medicaid 12% and 13%, respectively; Blue Cross/Blue Shield 10% and 12%, respectively; and patients 20% and 20%, respectively.

## (4) Contributions Receivable

Contributions receivable, net, is summarized as follows as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Unconditional promises scheduled to be collected in: | | | |
| Less than one year | $ | 101,605 | 87,632 |
| One year to five years | | 144,598 | 117,077 |
| Over five years | | 13,359 | 23,279 |
| | | 259,562 | 227,988 |
| Less unamortized discount (interest ranging from 2.4% to 5.1%) and allowances for uncollectible contributions | | 31,568 | 32,081 |
| | $ | 227,994 | 195,907 |



(Continued)

As of June 30, 2009 and 2008, 48% and 41%, respectively, of the gross contributions receivable were due from ten donors. Approximately 50% and 24% of contribution revenues for fiscal 2009 and 2008, respectively, were from ten donors. As of June 30, 2009, 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, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Cash and cash equivalents | $ | 82,505 | 48,437 |
| United States Government and agency obligations | | 488,782 | 487,257 |
| Debt securities | | 439,403 | 157,823 |
| Public equities | | 891,167 | 1,384,590 |
| Private equity and venture capital | | 361,275 | 402,407 |
| Real property assets | | 382,319 | 375,536 |
| Absolute return funds | | 629,574 | 691,408 |
| Other | | 63,618 | 77,790 |
| | $ | 3,338,643 | 3,625,248 |

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, 2009, the estimated fair value of the University’s alternative investments aggregated $1,238,068,000. The limitations and restrictions on the University’s ability to redeem or sell these alternative investments vary by investment. As of June 30, 2009, the University’s remaining outstanding commitments to alternative investments aggregated $656,537,000.

As of June 30, 2009 and 2008, assets of endowment and similar funds, excluding assets held for the Hospital and JHHEFI, amounted to $1,983,341,000 and $2,491,262,000, 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. As of June 30, 2009 and 2008, assets of the EIP, including cash and cash equivalents and investments, and including assets held for JHHEFI, amounted to $2,331,736,000 and $3,075,185,000, respectively.

As of June 30, 2009 and 2008, 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 return is summarized as follows for the years ended June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Dividend and interest income | $ | 49,602 | 79,341 |
| Net realized and unrealized losses | | (567,311) | (67,979) |
| External investment management fees and expenses | | (11,471) | (8,409) |
| Change in value of interests in trusts and endowment funds held by others | | (17,418) | (8,862) |
| | $ | (546,598) | (5,909) |

Investment return is classified in the statements of activities as follows for the years ended June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Operating | $ | 145,420 | 145,789 |
| Nonoperating | | (692,018) | (151,698) |
| | $ | (546,598) | (5,909) |

## (6) Fair Value Measurements

As of June 30, 2009 and 2008, the carrying values of the University's cash and cash equivalents, accounts receivable, contributions receivable, prepaid expenses, deferred charges and other assets, accounts payable, accrued expenses, deferred revenues and certain other liabilities approximate their fair values. An approximate estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the U.S. government or its designees.

The carrying amounts of debt with variable interest rates, including commercial paper, approximate fair value because the rates reflect the current market rates for debt instruments with similar maturities and credit quality. The fair value of fixed rate debt is estimated based upon quoted market prices for publicly traded issues with similar terms and average maturities. The fair value estimates are at a specific point in time, are subjective in nature and involve matters of judgment. The University is not obligated to settle its debt at fair value. The carrying amount and estimated fair value of the University's debt are summarized in the table below as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | | 2008 | |
|---|---|---|---|---|---|
| | | **Carrying amount** | **Estimated fair value** | **Carrying amount** | **Estimated fair value** |
| Variable rate debt | $ | 53,940 | 53,940 | 58,442 | 58,442 |
| Fixed rate debt | | 1,164,708 | 1,268,993 | 644,727 | 672,090 |
| Commercial paper revenue notes | | 312,954 | 312,954 | 324,648 | 324,648 |
| | $ | 1,531,602 | 1,635,887 | 1,027,817 | 1,055,180 |

Under Statement 157, the three levels of the fair value hierarchy are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.



(Continued)

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2009 (in thousands):

| | Fair value as of June 30, 2009 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Assets: | | | | |
| Investments: | | | | |
| Cash and cash equivalents | $ 82,505 | 82,505 | — | — |
| United States Government and agency obligations | 488,782 | 488,782 | — | — |
| Debt securities | 439,403 | 439,403 | — | — |
| Public equities | 891,167 | 411,272 | 479,895 | — |
| Private equity and venture capital | 361,275 | — | — | 361,275 |
| Real property assets | 382,319 | 11,122 | 43,903 | 327,294 |
| Absolute return funds | 629,574 | — | 175,720 | 453,854 |
| Other | 63,618 | 63,618 | — | — |
| Total investments | 3,338,643 | 1,496,702 | 699,518 | 1,142,423 |
| Other assets: | | | | |
| Deposits with bond trustees | 11,568 | 11,568 | — | — |
| Interests in trusts and endowment funds held by others | 90,637 | — | 68,426 | 22,211 |
| Total assets | $ 3,440,848 | 1,508,270 | 767,944 | 1,164,634 |
| Liabilities: | | | | |
| Interest rate swaps | $ 14,792 | — | 14,792 | — |
| Obligations under deferred compensation agreements | 63,618 | 63,618 | — | — |
| Endowment and similar funds held for others | 340,687 | — | — | 340,687 |
| Total liabilities | $ 419,097 | 63,618 | 14,792 | 340,687 |

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

The following tables present the University's activity for Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended June 30, 2009 (in thousands):

| | | Private equity and venture capital | Real property assets | Absolute return funds | Interests in trusts and endowments held by others | Total |
|---|---|---|---|---|---|---|
| Assets: | | | | | | |
| Beginning balance July 1, 2008 | $ | 402,407 | 300,593 | 435,257 | 28,632 | 1,166,889 |
| Total gains and losses included in changes in net assets: | | | | | | |
| Dividend and interest income | | 615 | 5,043 | 2,314 | — | 7,972 |
| Net realized and unrealized losses | | (85,602) | (52,510) | (83,117) | (5,321) | (226,550) |
| Purchases, sales, issuances and settlements | | 43,855 | 74,168 | 99,400 | (1,100) | 216,323 |
| Ending balance June 30, 2009 | $ | 361,275 | 327,294 | 453,854 | 22,211 | 1,164,634 |

| | | Endowment and similar funds held for others |
|---|---|---|
| Liabilities: | | |
| Beginning balance July 1, 2008 | $ | 437,183 |
| Net realized and unrealized losses | | (88,684) |
| Purchases, sales, issuances and settlements, net | | (7,812) |
| Ending balance June 30, 2009 | $ | 340,687 |

## (7) Investment in Property and Equipment

Investment in property and equipment, net, is summarized as follows as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 | Range of useful lives |
|---|---|---|---|---|
| Land | $ | 59,151 | 50,481 | N/A |
| Land improvements | | 80,200 | 78,259 | 15 years |
| Buildings and leasehold improvements | | 2,267,335 | 2,126,838 | 10 – 40 years |
| Equipment | | 561,911 | 527,359 | 7 – 15 years |
| Capitalized software costs | | 105,478 | 103,336 | 3 – 10 years |
| Library collections | | 203,870 | 194,013 | 25 years |
| Construction in progress | | 188,209 | 161,532 | N/A |
| | | 3,466,154 | 3,241,818 | |
| Less accumulated depreciation and amortization | | 1,479,120 | 1,324,690 | |
| | $ | 1,987,034 | 1,917,128 | |

## (8) Debt

Debt is summarized as follows as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Bonds payable | $ | 1,035,204 | 509,859 |
| Notes payable | | 124,296 | 132,120 |
| Commercial paper revenue notes – tax-exempt | | 258,466 | 253,660 |
| Commercial paper revenue notes – taxable | | 54,488 | 70,988 |
| Capital lease obligations (see note 15) | | 59,148 | 61,190 |
| | $ | 1,531,602 | 1,027,817 |

***Bonds and Notes Payable***

Bonds payable, except for the Revenue Bonds of 2009A, were issued by Maryland Health and Higher Educational Facilities Authority (MHHEFA), and consist of the following as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Refunding Revenue Bonds of 1997, 5.20% to 5.625%, net of unamortized discount of $196 in 2008 | $ | — | 11,924 |
| Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2010, including unamortized premium of $269 in 2008 | | 8,460 | 129,845 |
| Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $171 and $219 | | 13,241 | 15,484 |
| Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,309 and $1,324 | | 84,466 | 84,451 |
| Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,437 and $1,470 | | 105,287 | 105,254 |
| Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $1,085 and $1,131 | | 93,590 | 93,636 |
| Revenue Bonds of 2005A, variable rate, due July 2036 | | 69,265 | 69,265 |
| Revenue Bonds of 2008A, 5.00% to 5.25%, due July 2038, including unamortized premium of $5,808 | | 135,688 | — |
| Refunding Revenue Bonds of 2008B, variable rate, due July 2027 | | 125,480 | — |
| Revenue Bonds of 2009A, 5.25%, due July 2019, net of unamortized discount of $273 | | 399,727 | — |
| | $ | 1,035,204 | 509,859 |

In March 2009, the University issued taxable bonds of $400,000,000 (2009A Series). Proceeds from the bonds are being held by the University to increase liquidity and may be used to fund certain construction projects.

In August 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). The proceeds of the Series 2008A Bonds refinanced commercial paper revenue notes of $49,000,000 and have been used to finance construction and renovations of facilities. Proceeds from the Series 2008B Bonds were used to advance refund the Series 1997 and 1998 Bonds, except for principal on the 1998 Bonds due through July 2010. As a result of this refunding, the University recognized 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 bonds payable outstanding as of June 30, 2009 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, the Revenue Bonds of 2005A or the Revenue Bonds of 2009A prior to maturity. The Revenue Bonds of 2005A and 2008B bear interest at a variable rate which is reset on a weekly basis (0.10% at June 30, 2009) 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. The Revenue Bonds of 2008A provide for serial principal payments prior to maturity of $15,000,000 and $30,000,000 in 2013 and 2018, respectively.

Notes payable consist of the following as of June 30, 2009 and 2008 (in thousands):

| | | **2009** | **2008** |
|---|---|---|---|
| MHHEFA note due June 2013 | $ | 4,649 | 4,896 |
| MHHEFA note due November 2015 | | 27,224 | 30,473 |
| MHHEFA note due November 2020 | | 12,898 | 13,612 |
| MHHEFA note due February 2025 | | 3,810 | 3,967 |
| MHHEFA note due July 2026 | | 5,358 | 5,495 |
| Note due June 2012, 5.34% | | 837 | 1,078 |
| Note due December 2019, 8.88% | | 58,921 | 62,023 |
| Note due February 2014, 4.75% | | 8,477 | 8,698 |
| Note due February 2044, 4.75% | | 1,878 | 1,878 |
| Note due March 2017, 2.25% | | 244 | — |
| | $ | 124,296 | 132,120 |

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University, bear interest at a variable rate (1.10% at June 30, 2009) and are due in monthly installments. Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances (none as of June 30, 2009 or 2008).

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 (none as of June 30, 2009 or 2008).

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

The note due March 2017 was issued by the Maryland Energy Administration in the principal amount of $1,500,000 to fund energy efficient improvements. Funds are delivered to the University as project costs are incurred. The remaining principal amount will be advanced in fiscal year 2010. The note is an unsecured obligation of the University and is payable in semi-annual installments beginning February 2010.

***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 2034. 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, 2009 bear interest at a weighted average rate of 0.38%.

***Interest Costs***

Total interest costs incurred and paid were $47,143,000 in 2009 and $43,841,000 in 2008, of which $5,235,000 in 2009 and $4,718,000 in 2008 were capitalized. Interest income of $499,000 in 2009 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, 2009.

***Other Credit Agreements***

In order to support liquidity requirements under the commercial paper revenue notes program with MHHEFA, the University has a standby letter of credit agreement with a commercial bank in the aggregate amount of $250,000,000. This agreement would provide funds to the University in the event that commercial paper revenue notes could not be remarketed. Advances under this agreement are unsecured and bear interest at a rate that varies based on certain market indices. Advances for the agreement are due in 90 days. There were no borrowings under this agreement during fiscal 2009 and 2008.

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 2009 and 2008.

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 outstanding on the line of credit at June 30, 2009 or 2008.

***Interest Rate Swap Agreements***

The University has an interest rate swap agreement to reduce its interest rate risk on the Revenue Bonds of 2005A. This agreement extends through July 2036 and provides for the University to pay a fixed rate of 3.87% and receive a variable rate 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 which matured January 2009, with a notional amount of

$15,000,000, the University received a fixed rate of 2.97% and paid a floating rate. Under a second agreement, which 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 a notional amount of $115,000,000.

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 a current notional amount of $12,120,000. 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 a current notional amount of $113,735,000.

The aggregate fair value of the University's interest rate swap agreements as of June 30, 2009 and 2008 was a liability of $14,792,000 and $3,313,000, respectively, and is reported as other liabilities. Changes in the fair value of the interest rate swap agreements are reported as nonoperating activities. The change in fair value was a loss of approximately $11,479,000 and $16,661,000 in fiscal 2009 and fiscal 2008, respectively.

***Annual Principal Payments***

The following table summarizes the aggregate annual maturities of bonds payable, notes payable and commercial paper revenue notes, for the five years subsequent to June 30, 2009 (in thousands):

| | Bonds payable | Notes payable | Commercial paper notes | Total |
|---|---|---|---|---|
| 2010 | $ 11,150 | 8,761 | 12,610 | 32,521 |
| 2011 | 11,800 | 9,524 | 1,938 | 23,262 |
| 2012 | 12,405 | 10,239 | 2,082 | 24,726 |
| 2013 | 31,205 | 14,355 | 9,963 | 55,523 |
| 2014 | 10,905 | 18,549 | 11,200 | 40,654 |

## (9) 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 $29,966,000 and $29,694,000 as of June 30, 2009 and 2008, respectively.

## (10) 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, 2009 and 2008 have been invested in property and equipment or are designated by the Board for specific uses.

Unrestricted net assets consist of the following as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Net investment in property and equipment | $ | 455,431 | 889,311 |
| Funds designated for divisional and departmental support | | 379,346 | 66,950 |
| Endowment funds | | 577,633 | 1,438,318 |
| Student loan funds | | 13,018 | 13,047 |
| | $ | 1,425,428 | 2,407,626 |

Temporarily restricted net assets consist of the following as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Contributions restricted for departments and divisions | $ | 294,120 | 265,625 |
| Endowment return restricted for departments, divisions and student aid | | 311,345 | 13,961 |
| Contributions restricted for facilities | | 149,227 | 134,133 |
| Split interest agreements designated for departmental and divisional support | | 32,561 | 42,493 |
| Land subject to time and purpose restrictions | | 42,300 | 53,600 |
| | $ | 829,553 | 509,812 |

Income on permanently restricted net assets can be used for the following as of June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Departmental and divisional support | $ | 1,007,435 | 990,277 |
| Student aid | | 216,272 | 204,744 |
| | $ | 1,223,707 | 1,195,021 |



(Continued)

## (11) University Endowment

The University's endowment consists of approximately 3,200 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Subject to the intent of the donor, as approved by the Board of Trustees, the University manages and invests the individual endowment funds in the exercise of ordinary business care and prudence under the facts and circumstances and considering the purposes, factors and other requirements of UPMIFA. The University classifies as permanently restricted net assets (a) the original value of gifts donated which are not wholly expendable on a current basis, (b) the original value of subsequent gifts which are not wholly expendable on a current basis, and (c) accumulations to the permanent endowment which are not expendable on a current basis in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by the Act.

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

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

Endowment net assets consist of the following as of June 30, 2009 (in thousands):

| | | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|---|
| Donor-restricted endowment funds | $ | (100,475) | 311,345 | 1,094,363 | 1,305,233 |
| Board-designated endowment funds | | 678,108 | — | — | 678,108 |
| Total endowed net assets | $ | 577,633 | 311,345 | 1,094,363 | 1,983,341 |

Endowment net assets consist of the following as of June 30, 2008 (in thousands):

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ 555,107 | 13,961 | 1,038,983 | 1,608,051 |
| Board-designated endowment funds | 883,211 | — | — | 883,211 |
| Total endowed net assets | $ 1,438,318 | 13,961 | 1,038,983 | 2,491,262 |

Changes in endowment net assets for the year ended June 30, 2009 are as follows (in thousands):

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2008 | $ 1,438,318 | 13,961 | 1,038,983 | 2,491,262 |
| Reclassification | (557,375) | 557,375 | — | — |
| Endowment net assets after reclassification | 880,943 | 571,336 | 1,038,983 | 2,491,262 |
| Investment return, net | (317,261) | (140,818) | (3,223) | (461,302) |
| Contributions | 13,951 | 365 | 58,603 | 72,919 |
| Appropriation for expenditure | — | (119,538) | — | (119,538) |
| Endowment net assets, June 30, 2009 | $ 577,633 | 311,345 | 1,094,363 | 1,983,341 |

Changes in endowment net assets for the year ended June 30, 2008 are as follows (in thousands):

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment net assets, July 1, 2007 | $ 1,587,806 | 13,961 | 933,570 | 2,535,337 |
| Investment return, net | (53,676) | — | 1,847 | (51,829) |
| Contributions | 16,532 | — | 103,566 | 120,098 |
| Appropriation for expenditure | (112,344) | — | — | (112,344) |
| Endowment net assets, June 30, 2008 | $ 1,438,318 | 13,961 | 1,038,983 | 2,491,262 |

## (12) Affiliated Organizations

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Johns Hopkins Health System | $ | 16,616 | 16,871 |
| Johns Hopkins Hospital | | 205,320 | 175,249 |
| Other Johns Hopkins entities | | 85,040 | 79,991 |
| Other affiliated medical institutions | | 37,111 | 27,771 |
| | $ | 344,087 | 299,882 |

### *(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 both fiscal 2009 and 2008, 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 2009 and 2008 solely to support JHHS construction activities, which are reported as nonoperating expenses in the statements of activities.

### *(b) The Hospital*

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and 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 $135,534,000 in fiscal 2009 and $119,469,000 in fiscal 2008 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 $39,759,000 in fiscal 2009 and $39,388,000 in fiscal 2008, 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 receives payouts and may request withdrawals as specified in the agreement. The assets are included in investments in the balance sheets, and a corresponding liability is included in endowment and similar funds held for others as of June 30, 2009 and 2008, respectively.

***(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 16). Utility and telecommunications services provided to the University in fiscal 2009 and 2008 were approximately $31,828,000 and $34,941,000, respectively.

***(e) Jointly Owned Entities***

As of June 30, 2009 and 2008, 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 $51,170,000 and $43,393,000 as of June 30, 2009 and 2008, respectively. Equity in earnings of affiliates aggregated approximately $7,777,000 in fiscal 2009 and $10,524,000 in fiscal 2008 and is included in other revenues in the statement of activities.

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, 2009 and 2008, respectively (in thousands):

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Total** | **University interest** | **Total** | **University interest** |
| Assets | $ 454,613 | 211,805 | 489,266 | 199,488 |
| Liabilities | 344,103 | 160,635 | 349,291 | 156,095 |
| Operating revenues | 1,076,022 | 402,442 | 970,035 | 362,757 |
| Operating expenses | 1,010,008 | 395,601 | 848,280 | 352,233 |

**(13) 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 $140,627,000 in fiscal 2009 and $129,705,000 in fiscal 2008, including $130,467,000 and $121,263,000, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for $44,016,000 in fiscal 2009 and $39,449,000 in fiscal 2008.

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

Actuarial losses in 2009 are attributable primarily to changes in mortality and healthcare trend assumptions. Actuarial gains in 2008 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, 2009 and 2008 is summarized as follows (in thousands):

| | Pension plan | | Postretirement plans | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 280,320 | 278,456 | 195,286 | 198,495 |
| Service cost | 12,236 | 13,125 | 8,108 | 8,185 |
| Interest cost | 18,553 | 17,174 | 12,886 | 12,093 |
| Plan participant contributions | — | — | 4,759 | 4,389 |
| Amendments | — | 450 | — | — |
| Actuarial (gain) loss | 953 | (20,016) | 6,492 | (13,943) |
| Benefits paid | (10,304) | (8,869) | (15,690) | (14,885) |
| Medicare subsidies received | — | — | 1,516 | 952 |
| Benefit obligation at end of year | 301,758 | 280,320 | 213,357 | 195,286 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 255,977 | 269,803 | 137,894 | 141,661 |
| Actual return on plan assets | (37,908) | (13,988) | (17,588) | (9,295) |
| University contributions | 9,819 | 9,031 | 16,021 | 15,072 |
| Plan participant contributions | — | — | 4,759 | 4,389 |
| Benefits paid | (10,304) | (8,869) | (15,690) | (14,885) |
| Medicare subsidies received | — | — | 1,516 | 952 |
| Fair value of plan assets at end of year | 217,584 | 255,977 | 126,912 | 137,894 |
| Funded status recognized as other long-term liabilities | $ (84,174) | (24,343) | (86,445) | (57,392) |
| Cumulative amounts recognized in unrestricted net assets: | | | | |
| Net loss | $ (71,604) | (11,494) | (65,241) | (32,251) |
| Prior service cost | (837) | (1,116) | (14,822) | (16,217) |
| Transition obligation | — | — | (6,026) | (7,532) |
| Amount not yet recognized as pension or postretirement benefit cost | $ (72,441) | (12,610) | (86,089) | (56,000) |

The accumulated benefit obligation for the pension plan was $276,792,000 as of June 30, 2009 and $255,731,000 at June 30, 2008.

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2009 and 2008 (in thousands):

| | **Pension plan** | | **Postretirement plans** | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Net loss for the year | $ 60,110 | 16,445 | 33,857 | 5,419 |
| Prior service cost | — | 450 | — | — |
| Amortization of net transition obligation | — | — | (1,506) | (1,506) |
| Amortization of prior service cost | (279) | (311) | (1,395) | (1,470) |
| Amortization of net loss | — | — | (867) | (822) |
| Net loss recognized in nonoperating activities | $ 59,831 | 16,584 | 30,089 | 1,621 |

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2010 (in thousands):

| | **Pension plan** | **Postretirement plans** |
|---|---|---|
| Net loss | $ (3,559) | (2,849) |
| Prior service cost | (232) | (1,393) |
| Transition obligation | — | (1,506) |
| | $ (3,791) | (5,748) |

The net pension cost reported in operating expenses includes the following components for the years ended June 30, 2009 and 2008 (in thousands):

| | **2009** | **2008** |
|---|---|---|
| Service cost | $ 12,236 | 13,125 |
| Interest cost on accumulated benefit obligation | 18,553 | 17,174 |
| Amortization of prior service cost | 279 | 311 |
| Expected return on plan assets | (21,249) | (22,473) |
| | $ 9,819 | 8,137 |



(Continued)

The postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Service cost | $ | 8,108 | 8,185 |
| Interest cost on accumulated benefit obligation | | 12,886 | 12,093 |
| Expected return on plan assets | | (9,777) | (10,067) |
| Amortization of transition obligation | | 1,506 | 1,506 |
| Amortization of prior service cost | | 1,395 | 1,470 |
| Amortization of actuarial loss | | 867 | 822 |
| | $ | 14,985 | 14,009 |

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

| | Pension plan | | Postretirement plans | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average assumptions used to determine benefit obligations at June 30: | | | | |
| Discount rate | 6.85% | 6.75% | 6.85% | 6.75% |
| 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 | 7.80 | 9.00 |
| Weighted average assumptions used to determine net periodic benefit cost: | | | | |
| Discount rate | 6.75% | 6.25% | 6.75% | 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 4.5% in 2028 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, 2009, would have the following effects (in thousands):

| | | Increase | Decrease |
|---|---|---|---|
| Total service and interest cost components | $ | 2,532 | (2,007) |
| Postretirement benefit obligation | | 20,676 | (16,796) |



(Continued)

### *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, 2009 and 2008 are as follows:

| | | Actual allocation | | | |
|---|---|---|---|---|---|
| | Target | Pension plan | | Postretirement plans | |
| | allocation | 2009 | 2008 | 2009 | 2008 |
| Equity securities | 65% | 68% | 66% | 64% | 60% |
| Debt securities | 35 | 25 | 31 | 35 | 39 |
| Cash and cash equivalents | — | 7 | 3 | 1 | 1 |
| | 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 $18,592,000 to its postretirement benefit plans in 2010, including $10,922,000 related to APL. The University expects to contribute $19,720,000 to the pension plan in 2010.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2009 and in aggregate for the five years thereafter are as follows (in thousands):

| | Pension plan | Postretirement plans | Medicare subsidies |
|---|---|---|---|
| 2010 | $ 11,693 | 12,773 | 2,159 |
| 2011 | 12,434 | 13,405 | 2,380 |
| 2012 | 13,442 | 14,074 | 2,652 |
| 2013 | 14,801 | 14,914 | 2,979 |
| 2014 | 15,933 | 15,787 | 3,818 |
| 2015 – 2019 | 103,363 | 95,852 | 18,937 |

## (14) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2009 and 2008 (in thousands):

| | | 2009 | 2008 |
|---|---|---|---|
| Instruction, research and clinical practice: | | | |
| Academic and support divisions | $ | 2,349,434 | 2,231,841 |
| APL contracts | | 871,900 | 757,519 |
| Student services | | 72,178 | 62,951 |
| Libraries | | 42,404 | 39,917 |
| General services and administration | | 363,103 | 316,869 |
| Auxiliary enterprises | | 90,843 | 83,451 |
| | $ | 3,789,862 | 3,492,548 |

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.

## (15) Lease Commitments

As described in note 12, 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, 2010.

The University leases 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, 2009 (in thousands):

| | | Affiliates | Others | Total |
|---|---|---|---|---|
| 2010 | $ | 12,749 | 23,486 | 36,235 |
| 2011 | | 9,176 | 21,273 | 30,449 |
| 2012 | | 8,745 | 18,779 | 27,524 |
| 2013 | | 2,326 | 14,473 | 16,799 |
| 2014 | | 2,009 | 12,043 | 14,052 |
| After 2014 | | 4,902 | 49,834 | 54,736 |
| | $ | 39,907 | 139,888 | 179,795 |

Rental expense for the long-term operating leases was $38,482,000 in fiscal year 2009 and $39,758,000 in fiscal year 2008.



(Continued)

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, 2009 (in thousands):

| | | |
|---|---|---|
| 2010 | $ | 6,327 |
| 2011 | | 6,282 |
| 2012 | | 5,612 |
| 2013 | | 5,775 |
| 2014 | | 5,942 |
| After 2014 | | 82,089 |
| Minimum lease payments | | 112,027 |
| Less imputed interest (at rates from 3.87 to 8.41%) | | 52,879 |
| Present value of minimum lease payments | $ | 59,148 |

As of June 30, 2009, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases and included in property and equipment amounted to $65,010,000 and $10,071,000, respectively.

## (16) Other Commitments and Contingencies

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

- The University has guaranteed payment of principal and interest on the Series 2005B Bonds issued by MHHEFA for JHMI Utilities LLC. JHMI Utilities LLC is equally owned by the Hospital and the University. The proceeds of the 2005B Bonds ($24,300,000) and the 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.
- 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.

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.