JOHNS HOPKINS UNIVERSITY

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
The Johns Hopkins University:

We have audited the accompanying balance sheets of The Johns Hopkins University (the University) as of June 30, 2010 and 2009, 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, 2010 and 2009, 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 note 10, the University adopted Financial Accounting Standards Board 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 Endowments Funds,* effective July 1, 2008.

KPMG LLP

October 23, 2010

JOHNS HOPKINS UNIVERSITY

Balance Sheets

June 30, 2010 and 2009

(In thousands)

Assets		**2010**	**2009**
Cash and cash equivalents	$	165,914	188,119
Accounts receivable, net		455,395	447,266
Contributions receivable, net		163,866	227,994
Prepaid expenses, deferred charges and other assets		134,046	111,817
Student loans receivable, net		33,732	36,015
Investments		3,798,503	3,338,643
Investment in property and equipment, net		2,007,795	1,987,034
Interests in trusts and endowment funds held by others		94,171	90,637
Total assets	$	6,853,422	6,427,525
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	405,390	349,054
Deferred revenues and other liabilities		366,865	330,819
Payables and deferred revenues under split interest agreements		63,643	62,120
Debt		1,518,688	1,531,602
Pension and postretirement obligations		291,831	170,619
Other long-term liabilities		170,256	163,936
Endowment and similar funds held for others		399,981	340,687
Total liabilities		3,216,654	2,948,837
Net assets:			
Unrestricted		1,491,376	1,425,428
Temporarily restricted		880,907	829,553
Permanently restricted		1,264,485	1,223,707
Total net assets		3,636,768	3,478,688
Total liabilities and net assets	$	6,853,422	6,427,525

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statements of Activities

June 30, 2010 and 2009

(In thousands)

		2010	2009
Changes in Unrestricted Net Assets from Operating Activities:			
Revenues:			
Tuition and fees, net of financial aid of $207,292 and $197,223	$	410,980	389,467
Grants, contracts and similar agreements		2,390,824	2,189,150
Clinical services		416,697	407,051
Reimbursements from affiliated institutions		354,394	344,087
Contributions		72,183	86,675
Investment return		156,033	145,420
Maryland State aid		16,255	20,974
Sales and services of auxiliary enterprises		87,736	82,335
Other revenues		95,321	101,909
Net assets released from restrictions		102,769	77,166
Total operating revenues		4,103,192	3,844,234
Expenses:			
Compensation and benefits		2,340,088	2,205,954
Contractual services		864,736	801,228
Supplies, materials and other		483,560	477,725
Depreciation and amortization		176,618	172,138
Travel		92,107	85,256
Interest		62,269	47,561
Total operating expenses		4,019,378	3,789,862
Excess of revenues over expenses from operating activities	$	83,814	54,372

(Continued)

JOHNS HOPKINS UNIVERSITY

Statements of Activities

June 30, 2010 and 2009

(In thousands)

		2010	2009
Changes in Unrestricted Net Assets from Nonoperating Activities:			
Investment return	$	105,578	(379,401)
Change in benefit plans funded status, excluding benefit cost		(121,811)	(89,920)
Net assets released from restrictions		16,448	10,048
Other, net		(18,081)	(19,922)
Change in unrestricted net assets from nonoperating activities		(17,866)	(479,195)
Total changes in unrestricted net assets before reclassification		65,948	(424,823)
Reclassification of net assets for FSP 117-1		—	(557,375)
Total changes in unrestricted net assets		65,948	(982,198)
Changes in Temporarily Restricted Net Assets:			
Contributions		54,013	135,113
Investment return		116,558	(285,533)
Net assets reclassed from restrictions		(119,217)	(87,214)
Changes in temporarily restricted net assets before reclassification		51,354	(237,634)
Reclassification of net assets for FSP 117-1		—	557,375
Changes in temporarily restricted net assets		51,354	319,741
Changes in Permanently Restricted Net Assets:			
Contributions		42,413	55,665
Investment return		(3,379)	(27,084)
Other, net		1,744	105
Changes in permanently restricted net assets		40,778	28,686
Total changes in net assets		158,080	(633,771)
Net assets at beginning of year		3,478,688	4,112,459
Net assets at end of year	$	3,636,768	3,478,688

See accompanying notes to financial statements.

JOHNS HOPKINS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

(In thousands)

		2010	2009
Cash flows from operating activities:			
Changes in net assets	$	158,080	(633,771)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation, amortization and loss on asset disposals		177,296	176,737
Gain on sale of property		—	(19,010)
Contributions restricted for long-term investment		(75,865)	(77,367)
Net realized and unrealized (gains) losses from investments		(333,047)	584,729
Net unrealized losses from swaps		14,710	11,479
Change in benefit plans funded status		121,811	89,920
Changes in operating assets and liabilities:			
Accounts receivable, net		42,628	(43,593)
Contributions receivable, net		64,128	(32,087)
Prepaid expenses, deferred charges, and other assets		(31,041)	(10,928)
Accounts payable and accrued expenses		668	17,199
Deferred revenues and other liabilities		21,336	17,347
Investments, interests and payables related to trusts and split interest agreements		11,336	(3,845)
Other long-term liabilities		(3,274)	782
Net cash provided by operating activities		168,766	77,592
Cash flows from investing activities:			
Purchases of investments		(2,425,678)	(4,950,221)
Proceeds from sales and maturities of investments		2,347,437	4,512,663
Purchases of property and equipment		(193,427)	(244,727)
Proceeds from sale of property		—	11,075
Disbursements for student loans		(2,421)	(4,354)
Repayments of student loans		4,704	4,127
Change in deposits with bond trustees		8,812	(11,066)
Change in endowments held for others		6,371	(7,812)
Net cash used in investing activities		(254,202)	(690,315)
Cash flows from financing activities:			
Contributions restricted for long-term investment		75,865	77,367
Proceeds from borrowings		21,928	708,168
Advanced refinancing of debt		—	(174,855)
Debt payments		(34,562)	(30,426)
Net cash provided by financing activities		63,231	580,254
Net decrease in cash and cash equivalents		(22,205)	(32,469)
Cash and cash equivalents at beginning of year		188,119	220,588
Cash and cash equivalents at end of year	$	165,914	188,119

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 approximately 21,000 students, including 13,000 full-time students and 8,000 part-time students, and produced approximately 12% of the University's operating revenues in fiscal 2010 and 2009. 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 58% and 57% of the University's operating revenues in fiscal 2010 and 2009, respectively. Approximately 88% of these revenues 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.

Professional medical services are provided by members of the University's faculty to patients at The Johns Hopkins Hospital (the Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced approximately 10% and 11% of the University's operating revenues in fiscal 2010 and 2009, 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.

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.

Certain amounts for fiscal 2009 have been reclassified to conform to the presentation for fiscal 2010.

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

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

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

(c) Contributions

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

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

(Continued)

(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 where the carrying amount approximates fair value.

(e) Clinical Services

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

(f) Investments and Investment Income

Investments in United States government and agency obligations, debt securities and directly held 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, absolute return funds, and public equities held through commingled funds (collectively, alternative investments and commingled funds) are stated at estimated fair value based on the funds' net asset values (NAV), or their equivalents, as a practical expedient, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2010 and 2009, the University had no plans or intentions to sell investments at amounts different from NAV. The fair values estimated by the general partners or investment managers are reviewed and evaluated by the University's investment office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments, and the differences could be significant. Investments in certain real property assets are recorded at fair value based upon independent third party appraisals.

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

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

(Continued)

(g) Investment in Property and Equipment

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

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

(h) Split Interest Agreements and Interests in Trusts

The University's split interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuity agreements for which the University serves as trustee. Assets held under these arrangements are included in investments and are recorded at fair value. Contribution revenues are recognized at the date the trusts or agreements are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts and other changes in estimates of future benefits. Assets and liabilities under the University's charitable annuity agreements were $44,783,000 and $25,736,000, respectively, as of June 30, 2010.

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

(i) Affiliated Institutions

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

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

(j) Insurance

The University, together with other institutions, has formed captive insurance companies 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 $59,511,000 and $59,277,000 as of June 30, 2010 and 2009, respectively.

(k) Sponsored Projects

Revenues under grants, contracts and similar agreements with sponsors are recognized as expenditures are incurred for agreement purposes. These revenues include recoveries of facilities and administrative costs which are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions. Facilities and administrative cost recovery revenues for the academic and support divisions of the University were $281,594,000 in fiscal 2010 and $257,475,000 in fiscal 2009. Funds received from sponsors in advance of expenditures incurred are reported as deferred revenue.

(l) Tuition and Fees Revenue and Student Financial Aid

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

(m) Refundable Advances from the United States Government

Funds provided by the United States government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students, administered by the University, and may be reloaned after collections. These funds are ultimately refundable to the government and are included in other long-term liabilities. These advances totaled $29,832,000 and $29,966,000 as of June 30, 2010 and 2009, respectively.

(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 2010 or 2009.

(o) Leases

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

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

(p) Derivative Financial Instruments

The University'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. The University uses interest rate swap agreements to manage interest rate risk associated with certain variable rate debt or to adjust its debt structure. Derivative financial instruments are measured at fair value and recognized in the balance sheets as assets or liabilities, with changes in fair value recognized in the statements of activities.

(q) Statement of Cash Flows

There were no significant noncash transactions in fiscal 2010 and 2009.

(r) New Accounting Pronouncements

Effective June 30, 2010, the University adopted the disclosure provisions of Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, with respect to its alternative investments and commingled funds. The required disclosures include information about the University's ability to redeem its investments at the measurement date, unfunded commitments, and investee strategies.

Effective June 30, 2010, the University adopted FASB Accounting Standards Codification (ASC), *Disclosures about Derivative Instruments and Hedging Activities* (ASC 815). ASC 815 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. ASC 815 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of ASC 815 have been applied, and the impact that hedges have on the entity's financial position, financial performance, and cash flows.

Effective June 30, 2010, the University adopted FASB ASC 715, *Employers' Disclosures about Postretirement Benefit Plan Assets* (ASC 715). ASC 715 requires the University to disclose information about fair value measurements of pension and postretirement plan assets that are similar to the fair value measurement disclosures required by ASC 820, *Fair Value Measurements and Disclosures*.

(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 $328,906,000 and $329,446,000 as of June 30, 2010 and 2009, respectively, including net investment in property and equipment of $269,819,000 and $256,066,000, respectively, and funds functioning as endowment of $56,725,000 and $51,087,000, respectively.

(3) Accounts Receivable

Accounts receivable, net is summarized as follows as of June 30, 2010 and 2009 (in thousands):

		2010	2009
Reimbursement of costs incurred under grants and contracts	$	277,283	315,322
Affiliated institutions, primarily the Hospital		37,901	47,783
Students		10,554	13,214
Others		85,548	28,790
Total research, training, students and other, less allowances of $36,805 in 2010 and $26,648 in 2009		411,286	405,109
Receivables for medical services, less contractual and bad debt allowances of $96,208 in 2010 and $92,364 in 2009		44,109	42,157
	$	455,395	447,266

Approximately 82% of reimbursement of costs incurred under grants and contracts as of June 30, 2010 and 2009 were receivables from agencies or departments of the United States Government.

In March 2010, the Internal Revenue Service announced an administrative determination to accept the position that medical residents are exempt from Federal Insurance Contribution Act (FICA) taxes for calendar years 1991 to 2002. The University has recorded a receivable for the estimated FICA refund in the amount of $50,757,000. A corresponding liability of $47,852,000 has been recorded for the amounts paid by the medical residents, the Hospital, and other affiliates.

The mix of gross accounts receivable for medical services from patients and third party payors consisted of the following as of June 30, 2010 and 2009: commercial third parties 37% and 40%, respectively; Medicare 21% and 18%, respectively; Medicaid 12% and 12%, respectively; Blue Cross/Blue Shield 10% and 10%, respectively; and patients 20% and 20%, respectively.

(4) Contributions Receivable

Contributions receivable, net, is summarized as follows as of June 30, 2010 and 2009 (in thousands):

		2010	2009
Unconditional promises scheduled to be collected in:			
Less than one year	$	49,246	101,605
One year to five years		127,544	144,598
Over five years		11,431	13,359
		188,221	259,562
Less unamortized discount (interest ranging from 1.8% to 5.1%) and allowances for uncollectible contributions		24,355	31,568
	$	163,866	227,994

As of June 30, 2010 and 2009, 34% and 48%, respectively, of the gross contributions receivable were due from ten donors. Approximately 20% and 50% of contribution revenues for fiscal 2010 and 2009, respectively, were from ten donors. As of June 30, 2010, the University had also been informed of bequest intentions and conditional promises to give aggregating in excess of $400,000,000 which have not been recognized as assets or revenues. If received, these gifts will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

(5) Investments and Investment Return

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

Investments are summarized as follows as of June 30, 2010 and 2009 (in thousands):

		2010	2009
Cash and cash equivalents	$	142,244	82,505
United States government and agency obligations		507,049	488,782
Debt securities		484,578	439,403
Public equities		913,216	891,167
Private equity and venture capital		457,879	361,275
Real property assets		439,975	382,319
Absolute return funds		776,873	629,574
Other		76,689	63,618
	$	3,798,503	3,338,643

As of June 30, 2010 and 2009, other investments represent investments held by the University under deferred compensation agreements. Such amounts approximate the University's related liability to employees, which are included in other long-term liabilities.

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

Public equities: As of June 30, 2010, the fair value of these funds was $548,032,000. This includes commingled funds that invest in publicly traded common stock of domestic, developed, and emerging market companies. One fund, representing $22,417,000, offers annual liquidity while all other funds allow monthly or quarterly redemptions with various notice requirements ranging from 1 to 120 days.

Private equity and venture capital: As of June 30, 2010, the fair value of these funds was $457,879,000. This includes funds making investments in leveraged buyouts of both public and private companies, as well as investments in venture capital, growth-stage investing, and distressed debt. These are limited partnerships where distributions are made to investors through the liquidation of the underlying assets. It is expected to take up to ten years to fully distribute those assets. As of June 30, 2010, the University had $225,753,000 in unfunded commitments to these funds.

Real property assets: As of June 30, 2010, the fair value of these funds was $293,128,000. This includes limited partnerships making investments in oil and gas, timber, agriculture, minerals, other commodities, and real estate. These investments make distributions to investors through the liquidation of the underlying assets. It is expected to take up to 15 years to fully distribute those assets. As of June 30, 2010, the University had $249,519,000 in unfunded commitments to these funds.

Absolute return funds: As of June 30, 2010, the fair value of these funds was $776,873,000. This includes multi-strategy, credit and distressed debt, relative value, and event-driven funds in hedge fund and drawdown formats. Hedge funds representing $96,749,000 allow full quarterly redemptions, while $225,049,000 allow full annual redemptions, and $146,316,000 accumulate quarterly or annual withdrawal rights over a 2- to 3-year period. Notice requirements, range from 3 to 180 days. Funds representing $83,430,000 are either in their initial lock-up period or offer rolling 2- or 3-year redemption availability. Drawdown funds, representing $225,329,000, are limited partnerships where distributions are made to

 (Continued)

investors through the liquidation of the underlying assets. It is expected to take up to ten years to fully distribute these funds. As of June 30, 2010, the University had $100,551,000 in unfunded commitments to drawdown funds.

Investment return is summarized as follows for the years ended June 30, 2010 and 2009 (in thousands):

		2010	2009
Dividend and interest income	$	57,045	49,602
Net realized and unrealized gains (losses)		327,541	(567,311)
External investment management fees and expenses		(15,302)	(11,471)
Change in value of interests in trusts and endowment funds held by others		5,506	(17,418)
	$	374,790	(546,598)

Investment return is classified in the statements of activities as follows for the years ended June 30, 2010 and 2009 (in thousands):

		2010	2009
Unrestricted net assets:			
Operating	$	156,033	145,420
Nonoperating		105,578	(379,401)
Temporarily restricted net assets		116,558	(285,533)
Permanently restricted net assets		(3,379)	(27,084)
	$	374,790	(546,598)

(6) Fair Value Measurements

As of June 30, 2010 and 2009, the carrying values of the University’s cash and cash equivalents, accounts receivable, contributions receivable, prepaid expenses, deferred charges and other assets, accounts payable, accrued expenses, and certain other liabilities approximate their fair values. An 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 fixed rate debt is $954,192,000 and $1,036,990,000, respectively, in 2010 and $969,963,000 and $1,063,021,000, respectively in 2009.

Assets and liabilities that are reported at fair value on a recurring basis are categorized into a fair value hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

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

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

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

		Fair value as of June 30, 2010	Level 1	Level 2	Level 3
Assets:					
Investments:					
Cash and cash equivalents	$	142,244	142,244	—	—
United States government and agency obligations		507,049	507,049	—	—
Debt securities		484,578	484,578	—	—
Public equities		913,216	365,184	548,032	—
Private equity and venture capital		457,879	—	—	457,879
Real property assets		439,975	13,396	—	426,579
Absolute return funds		776,873	—	96,749	680,124
Other		76,689	76,689	—	—
Total investments		3,798,503	1,589,140	644,781	1,564,582
Other assets:					
Deposits with bond trustees		2,756	2,756	—	—
Interests in trusts and endowment funds held by others		94,171	—	69,842	24,329
Total assets	$	3,895,430	1,591,896	714,623	1,588,911
Liabilities:					
Interest rate swaps	$	29,502	—	29,502	—
Obligations under deferred compensation agreements		72,575	—	72,575	—
Endowment and similar funds held for others		399,981	—	—	399,981
Total liabilities	$	502,058	—	102,077	399,981

The 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	—	371,197
Absolute return funds	629,574	—	41,095	588,479
Other	63,618	63,618	—	—
Total investments	3,338,643	1,496,702	520,990	1,320,951
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	589,416	1,343,162
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	—	78,410	340,687

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

(Continued)

The following tables present the University's activity for Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2010 and 2009 (in thousands):

		Private equity and venture capital	Real property assets	Absolute return funds	Interests in trusts and endowments held by others	Total
Assets:						
Balance at June 30, 2008	$	402,407	355,714	639,722	28,632	1,426,475
Dividend and interest income		615	5,043	2,307	—	7,965
Net realized and unrealized losses		(85,602)	(64,014)	(102,302)	(5,321)	(257,239)
Purchases, sales, issuances and settlements, net		43,855	74,454	48,752	(1,100)	165,961
Balance at June 30, 2009		361,275	371,197	588,479	22,211	1,343,162
Transfers to Level 2		—	—	(39,177)	—	(39,177)
Dividend and interest income		3,305	5,399	6,281	—	14,985
Net realized and unrealized gains (losses)		84,726	(3,086)	122,707	2,118	206,465
Purchases, sales, issuances and settlements, net		8,573	53,069	1,834	—	63,476
Balance at June 30, 2010	$	457,879	426,579	680,124	24,329	1,588,911

		Endowment and similar funds held for others
Liabilities:		
Balance at June 30, 2008	$	437,183
Net realized and unrealized losses		(88,684)
Purchases, sales, issuances and settlements, net		(7,812)
Balance at June 30, 2009		340,687
Net realized and unrealized gains		52,922
Purchases, sales, issuances and settlements, net		6,372
Balance at June 30, 2010	$	399,981

(7) Investment in Property and Equipment

Investment in property and equipment, net, is summarized as follows as of June 30, 2010 and 2009 (in thousands):

		2010	2009	Range of useful lives
Land	$	76,324	59,151	N/A
Land improvements		79,489	80,200	15 years
Buildings and leasehold improvements		2,364,496	2,267,335	10 – 40 years
Equipment		609,744	561,911	7 – 15 years
Capitalized software costs		106,274	105,478	3 – 10 years
Library collections		215,024	203,870	25 years
Construction in progress		186,937	188,209	N/A
		3,638,288	3,466,154	
Less accumulated depreciation and amortization		1,630,493	1,479,120	
	$	2,007,795	1,987,034	

(8) Debt

Debt is summarized as follows as of June 30, 2010 and 2009 (in thousands):

		2010	2009
Bonds payable	$	1,023,774	1,035,204
Notes payable		116,791	124,296
Commercial paper revenue notes – tax-exempt		266,528	258,466
Commercial paper revenue notes – taxable		54,488	54,488
Capital lease obligations		57,107	59,148
	$	1,518,688	1,531,602

Bonds 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, 2010 and 2009 (in thousands):

		2010	2009
Refunding Revenue Bonds of 1998, 6.00%	$	—	8,460
Refunding Revenue Bonds of 2001A, 5.00%, due July 2013, including unamortized premium of $126 in 2010 and $171 in 2009		10,901	13,241
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,293 in 2010 and $1,309 in 2009		84,482	84,466
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,403 in 2010 and $1,437 in 2009		105,321	105,287
Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $1,039 in 2010 and $1,085 in 2009		93,544	93,590
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 $5,541 in 2010 and $5,808 in 2009		135,421	135,688
Refunding Revenue Bonds of 2008B, variable rate, due July 2027		125,085	125,480
Revenue Bonds of 2009A, 5.25%, due July 2019, net of unamortized discount of $245 in 2010 and $273 in 2009		399,755	399,727
	$	1,023,774	1,035,204

In March 2009, the University issued taxable bonds of $400,000,000 (2009A Series) to increase liquidity.

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, 2010 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 (0.23% and 0.18% at June 30, 2010, respectively) 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

Notes payable consist of the following as of June 30, 2010 and 2009 (in thousands):

		2010	2009
MHHEFA note due June 2013	$	4,403	4,649
MHHEFA note due November 2015		23,741	27,224
MHHEFA note due November 2020		12,133	12,898
MHHEFA note due February 2025		3,642	3,810
MHHEFA note due July 2026		5,211	5,358
Note due June 2012, 5.34%		577	837
Note due December 2019, 8.88%		55,544	58,921
Note due February 2014, 4.75%		8,262	8,477
Note due February 2044, 4.75%		1,878	1,878
Note due March 2017, 2.25%		1,400	244
	$	116,791	124,296

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 (0.80% at June 30, 2010) 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, 2010 or 2009).

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, 2010 or 2009).

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

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

Commercial Paper

The commercial paper revenue notes were issued by MHHEFA. Under the commercial paper program, the University may have revenue notes outstanding of up to $400,000,000 to finance and refinance the costs of qualified assets to July 2035. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from that date, although it is anticipated that the University will continuously renew maturing notes for a period of up to 120% of the estimated useful lives of the related assets. The notes outstanding at June 30, 2010 bear interest at a weighted average rate of 0.31%.

Interest Costs

Total interest costs incurred and paid were $60,812,000 in 2010 and $47,143,000 in 2009, of which $4,535,000 in 2010 and $5,235,000 in 2009 were capitalized. Interest income of $54,000 in 2010 and $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, 2010.

Other Credit Agreements

In order to support liquidity requirements under the bond and commercial paper revenue notes programs with MHHEFA, the University has two standby liquidity support agreements with commercial banks in the amount of $300,000,000 and $100,000,000. These agreements would provide funds to the University in the event that bonds or commercial paper revenue notes could not be remarketed. Annual fees for the $300,000,000 and $100,000,000 agreements are 48 basis points and 45 basis points, respectively. Advances under these agreements are unsecured and bear interest at a rate that varies based on certain market indices. Advances for one agreement are due in 90 days and advances for the other agreement are due by the stated expiration date. There were no borrowings under these agreements during fiscal 2010 and 2009.

The University also had a $150,000,000 revolving credit agreement with a commercial bank which expired December 2009. There were no borrowings during fiscal 2010 and 2009.

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. The annual fee for this agreement is 5 basis points and the unused line fee is 15 basis points per annum. There were no borrowings outstanding on the line of credit at June 30, 2010 or 2009.

Interest Rate Swap Agreements

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

Parties to interest rate swap agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. The University is not generally required to post any collateral under these agreements, but collateral is required under certain specified events. As of June 30, 2010 posted collateral amounted to $7,400,000 and is included in cash and cash equivalents. There was no posted collateral for these agreements as of June 30, 2009.

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

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 equal to 67% of the 1 month LIBOR index based on a current notional amount of $11,745,000. The agreement related to the Refunding Revenue Bonds of 1998 had an effective date of July 2008 and terminates in July 2020. The University pays a fixed rate of 3.43% and receives a variable rate equal to 67% of the 1 month LIBOR index based on a current notional amount of $113,735,000.

The University also uses interest rate swap agreements to adjust its debt structure in accordance with its policy guidelines. Under one agreement, which had an effective date of July 2008 and 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 July 2010, this swap agreement was restructured. Under the terms of the new agreement, the fixed rate has been amended from 3.90% to 3.02% and the floating rate basis has been amended from the SIFMA municipal index to 70% of the 3 month LIBOR index.

The fair value of each swap is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date considering current interest rates and credit worthiness of the swap counterparties. The aggregate fair value of the University’s interest rate swap agreements as of June 30, 2010 and 2009 was a liability of $29,502,000 and $14,792,000, 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 $14,710,000 and $11,479,000 in fiscal 2010 and fiscal 2009, respectively.

Annual Principal Payments

The following table summarizes the aggregate annual maturities of bonds payable, notes payable and the maturities of specific commercial paper revenue note tranches, for the five years subsequent to June 30, 2010 (in thousands):

		Bonds payable	Notes payable	Commercial paper notes	Total
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
2015		11,485	11,858	6,859	30,202

(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2010 and 2009 (in thousands):

		2010	2009
Contributions restricted for departments and divisions	$	242,910	294,120
Endowment return restricted for departments, divisions and student aid		390,722	311,345
Contributions restricted for facilities		145,812	149,227
Split interest agreements designated for departmental and divisional support		31,463	32,561
Land subject to time and purpose restrictions		70,000	42,300
	$	880,907	829,553

Permanently restricted net assets consist of the following as of June 30, 2010 and 2009 (in thousands) with income available for:

		2010	2009
Departmental and divisional support	$	1,040,370	1,007,435
Student aid		224,115	216,272
	$	1,264,485	1,223,707

(10) University Endowment

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 in fiscal 2009. 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.

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, or, if in an underwater position, as unrestricted net assets.

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

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

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

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

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
	$ 577,633	311,345	1,094,363	1,983,341

Changes in endowment net assets for the years ended June 30, 2009 and 2010 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2008	$ 1,438,318	13,961	1,038,983	2,491,262
Reclassification due to accounting change	(557,375)	557,375	—	—
Endowment net assets after reclassification	880,943	571,336	1,038,983	2,491,262
Investment return	(259,788)	(197,921)	(3,223)	(460,932)
Contributions and designations	13,951	365	58,603	72,919
Appropriation for expenditure	(57,473)	(62,435)	—	(119,908)
Endowment net assets, June 30, 2009	577,633	311,345	1,094,363	1,983,341
Investment return	171,514	150,728	(17,995)	304,247
Contributions and designations	15,636	(525)	47,838	62,949
Appropriation for expenditure	(53,046)	(70,826)	—	(123,872)
Endowment net assets, June 30, 2010	$ 711,737	390,722	1,124,206	2,226,665

(11) Affiliated Organizations

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2010 and 2009 (in thousands):

		2010	2009
Johns Hopkins Health System	$	17,567	16,616
Johns Hopkins Hospital		209,836	205,320
Other Johns Hopkins entities		91,449	85,040
Other affiliated medical institutions		35,542	37,111
	$	354,394	344,087

(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 2010 and 2009, the University contributed $5,000,000 to JHHS to support certain JHHS initiatives, including but not limited to JHHS facility renovation and construction, which are reported as operating expenses in the statements of activities. The University contributed an additional $5,000,000 in fiscal 2010 and 2009, solely to support JHHS construction activities, which are reported as nonoperating expenses in the statements of activities.

(b) The Hospital

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and the Hospital share facilities and provide services to each other to fulfill their purposes more effectively. The sharing of facilities and services is negotiated annually and set forth in a Joint Administrative Agreement (JAA). Costs charged to the Hospital under the JAA, related primarily to the provision of professional medical services from the University, aggregated $146,700,000 in fiscal 2010 and $135,534,000 in fiscal 2009 and are included in reimbursements from affiliated institutions in the statements of activities. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated $41,210,000 in fiscal 2010 and $39,759,000 in fiscal 2009, 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 as determined by their Board of Trustees and may terminate the agreement upon 180 days written notice with liquidations to be made over a three year period as specified in the agreement. The assets are included in investments in the balance sheets, and a corresponding liability of $308,482,000 and $277,394,000 is included in endowment and similar funds held for others as of June 30, 2010 and 2009, respectively.

(d) Jointly Owned Entities

As of June 30, 2010 and 2009, 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 $55,294,000 and $51,170,000 as of June 30, 2010 and 2009, respectively. Equity in earnings of affiliates aggregated approximately $12,576,000 in fiscal 2010 and $7,777,000 in fiscal 2009 and is included in other revenues in the statement of activities.

In 2005, one of these entities, JHMI Utilities LLC, was formed to provide utility services for the east Baltimore Campus. The University and Hospital, each owning 50% of JHMI Utilities LLC, provide all of its funding, including debt service, through payments for services received. Utility and telecommunications services provided to the University in fiscal 2010 and 2009 were approximately $34,122,000 and $31,828,000, respectively.

Although the University's ownership interest in each of the jointly owned entities is 50%, the University and JHHS have entered into separate agreements whereby certain activities or lines of business within these entities are not shared equally. The following table summarizes the aggregate condensed financial information of the jointly owned entities and the University's proportionate share of the entities as of and for the years ended June 30, 2010 and 2009, respectively (in thousands):

	2010		2009	
	Total	**University interest**	**Total**	**University interest**
Assets	$ 511,051	236,288	454,613	211,805
Liabilities	394,333	180,994	344,103	160,635
Operating revenues	1,236,452	480,852	1,076,022	402,442
Operating expenses	1,173,086	468,276	1,010,008	395,601

(12) Pension and Postretirement Benefit Plans

The University has several pension plans that are available to substantially all full-time employees. Most of these plans are defined contribution plans for which the University's policy is to fund pension costs as accrued. The University also has a defined benefit pension plan covering bargaining unit employees and those classified as support staff. Pension expense was $157,871,000 in fiscal 2010 and $140,627,000 in fiscal 2009, including $138,680,000 and $130,467,000, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for $48,314,000 in fiscal 2010 and $44,016,000 in fiscal 2009.

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 2010 are attributable primarily to the decrease in the discount rate assumption. Actuarial losses in 2009 are attributable primarily to changes in mortality and healthcare trend assumptions.

(Continued)

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, 2010 and 2009 is summarized as follows (in thousands):

	Pension plan		Postretirement plans	
	2010	**2009**	**2010**	**2009**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 301,758	280,320	213,357	195,286
Service cost	12,534	12,236	9,527	8,108
Interest cost	20,084	18,553	14,463	12,886
Participant contributions	—	—	5,234	4,759
Actuarial loss	81,901	953	62,827	6,492
Benefits paid	(10,809)	(10,304)	(16,252)	(15,690)
Medicare subsidies received	—	—	1,828	1,516
Benefit obligation at end of year	405,468	301,758	290,984	213,357
Change in plan assets:				
Fair value of plan assets at beginning of year	217,584	255,977	126,912	137,894
Actual return on plan assets	26,025	(37,908)	15,070	(17,588)
University contributions	18,868	9,819	20,161	16,021
Participant contributions	—	—	5,234	4,759
Benefits paid	(10,809)	(10,304)	(16,252)	(15,690)
Medicare subsidies received	—	—	1,828	1,516
Fair value of plan assets at end of year	251,668	217,584	152,953	126,912
Funded status recognized as other long-term liabilities	$ (153,800)	(84,174)	(138,031)	(86,445)
Cumulative amounts recognized in unrestricted net assets:				
Net loss	$ (141,463)	(71,604)	(120,324)	(65,241)
Prior service cost	(605)	(837)	(13,429)	(14,822)
Transition obligation	—	—	(4,520)	(6,026)
Amount not yet recognized as pension or postretirement benefit cost	$ (142,068)	(72,441)	(138,273)	(86,089)

The accumulated benefit obligation for the pension plan was $369,666,000 as of June 30, 2010 and $276,792,000 as of June 30, 2009.

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2010 and 2009 (in thousands):

	Pension plan		Postretirement plans	
	2010	**2009**	**2010**	**2009**
Net loss for the year	$ 73,259	60,110	58,142	33,857
Amortization of net transition obligation	—	—	(1,506)	(1,506)
Amortization of prior service cost	(232)	(279)	(1,393)	(1,395)
Amortization of net loss	(3,400)	—	(3,059)	(867)
Net loss recognized in nonoperating activities	$ 69,627	59,831	52,184	30,089

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2011 (in thousands):

	Pension plan	Postretirement plans
Net loss	$ (8,753)	(5,956)
Prior service cost	(232)	(1,393)
Transition obligation	—	(1,506)
	$ (8,985)	(8,855)

The net pension cost reported in operating expenses includes the following components for the years ended June 30, 2010 and 2009 (in thousands):

	2010	2009
Service cost	$ 12,535	12,236
Interest cost on accumulated benefit obligation	20,084	18,553
Amortization of prior service cost	232	279
Expected return on plan assets	(17,383)	(21,249)
Amortization of net loss	3,400	—
	$ 18,868	9,819

The postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2010 and 2009 (in thousands):

		2010	2009
Service cost	$	9,527	8,108
Interest cost on accumulated benefit obligation		14,463	12,886
Expected return on plan assets		(10,385)	(9,777)
Amortization of transition obligation		1,506	1,506
Amortization of prior service cost		1,393	1,395
Amortization of actuarial loss		3,059	867
	$	19,563	14,985

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

	Pension plan		Postretirement plans	
	2010	2009	2010	2009
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	5.50%	6.85%	5.50%	6.85%
Rate of compensation increase	4.50	4.00	N/A	N/A
Rate of increase in health care costs for next year	N/A	N/A	7.70	7.80
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	6.85%	6.75%	6.85%	6.75%
Expected rate of return on plan assets	8.00	8.50	8.00	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	7.80	9.00

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

(Continued)

The rate of increase in health care costs was assumed to decrease to 4.50% 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, 2010, would have the following effects (in thousands):

		Increase	Decrease
Total service and interest cost components	$	2,913	(2,306)
Postretirement benefit obligation		34,997	(27,674)

Plans' Assets

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

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

The University's target asset and actual asset allocations by category as of June 30, 2010 and 2009 are as follows:

	Pension plan			Postretirement plans		
	Target allocation	Actual allocation 2010	Actual allocation 2009	Target allocation	Actual allocation 2010	Actual allocation 2009
Cash and cash equivalents	—%	4%	7%	—%	4%	—%
U.S. government obligations	—	10	7	—	6	5
Debt securities	30	27	22	35	31	29
Public equities	50	46	52	65	59	66
Real assets	15	6	7	—	—	—
Absolute return funds	5	7	5	—	—	—
	100%	100%	100%	100%	100%	100%

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

		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$	9,783	9,783	—	—
U.S. government obligations		25,881	25,881	—	—
Debt securities		67,116	—	67,116	—
Public equities		116,733	35,085	81,648	—
Real assets		15,794	6,584	—	9,210
Absolute return funds		16,361	—	5,869	10,492
Total	$	251,668	77,333	154,633	19,702

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

		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$	6,331	6,331	—	—
U.S. government obligations		8,800	8,800	—	—
Debt securities		48,212	3,369	44,843	—
Public equities		89,610	29,319	60,291	—
Total	$	152,953	47,819	105,134	—

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

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

		Real assets	Absolute return funds	Total
Balance at June 30, 2009	$	9,654	8,624	18,278
Dividend and interest income		691	—	691
Net realized and unrealized gains (losses)		(1,025)	1,868	843
Purchases, sales, issuances and settlements, net		(110)	—	(110)
Balance at June 30, 2010	$	9,210	10,492	19,702

Cash Flows

The University expects to contribute $26,769,000 to its postretirement benefit plans in 2011. The University expects to contribute $30,590,000 to the pension plan in 2011.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2010 and in aggregate for the five years thereafter are as follows (in thousands):

		Pension plan	Postretirement plans	Medicare subsidies
2011	$	12,705	13,096	2,279
2012		13,638	13,877	2,529
2013		14,893	14,777	2,834
2014		16,002	15,713	3,164
2015		17,516	16,646	3,540
2016 – 2020		111,740	103,935	17,839

(13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2010 and 2009 (in thousands):

	2010	2009
Instruction, research and clinical practice:		
Academic and support divisions	$ 2,430,100	2,312,983
APL contracts	1,016,423	909,705
Student services	76,541	73,999
Libraries	37,638	39,465
General services and administration	364,803	363,601
Auxiliary enterprises	93,873	90,109
	$ 4,019,378	3,789,862

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

(14) Lease Commitments

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

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

The aggregate annual minimum guaranteed rents to be paid to the expiration of the initial terms of these leases, excluding the rentals to the Hospital under the JAA, are as follows as of June 30, 2010 (in thousands):

	Affiliates	Others	Total
2011	$ 11,484	26,641	38,125
2012	10,654	25,066	35,720
2013	3,542	21,526	25,068
2014	3,158	17,522	20,680
2015	2,909	16,225	19,134
After 2015	3,655	64,366	68,021
	$ 35,402	171,346	206,748

Rental expense for the long-term operating leases was $42,496,000 in fiscal year 2010 and $38,482,000 in fiscal year 2009.

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, 2010 (in thousands):

2011	$	6,282
2012		5,612
2013		5,775
2014		5,942
2015		6,114
After 2015		75,975
Minimum lease payments		105,700
Less imputed interest (at rates from 3.89% to 8.41%)		48,593
Present value of minimum lease payments	$	57,107

As of June 30, 2010, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases and included in property and equipment amounted to $63,416,000 and $13,812,000, respectively.

(15) Other Commitments and Contingencies

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

- The University has guaranteed payment of principal and interest on the Series 2005B Bonds issued by MHHEFA for JHMI Utilities LLC. JHMI Utilities LLC is equally owned by the Hospital and the University. The proceeds of the 2005B Bonds ($24,300,000) and the Hospital guaranteed 2005A Bonds ($24,545,000) financed the construction, renovation and equipping of a central power plant serving primarily the facilities of the Hospital and University in east Baltimore. The University's guarantee continues until maturity of the bonds in 2035.
- The University and the Hospital have also provided guarantees of principal and interest payments related to loans granted to JHMI Utilities LLC under the MHHEFA Pooled Loan Program. These loans were primarily used to provide additional financing for the central power plant project. As of June 30, 2010, the University's guarantee amounted to $28,900,000 and the Hospital's guarantee amounted to $25,961,000. The University's guarantees continue until maturity of the loans in 2017.
- The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of $385,000) due under a loan issued by MHHEFA to JHHS to finance the acquisition of Howard County General Hospital. This guarantee continues until maturity of the loan in 2033.

- The University 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. 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.

(16) Subsequent Events

The University evaluated subsequent events through October 23, 2010, which is the date the financial statements were issued, and determined there were no matters that required adjustment to or disclosure in the financial statements.