THE JOHNS HOPKINS UNIVERSITY

Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 20, 2012

THE JOHNS HOPKINS UNIVERSITY

Balance Sheets

June 30, 2012 and 2011

(In thousands)

Assets		**2012**	**2011**
Cash and cash equivalents	$	182,234	148,751
Operating investments		820,488	775,227
Accounts receivable, net		521,913	523,669
Contributions receivable, net		246,484	295,412
Prepaid expenses and deferred charges		39,233	37,820
Student loans receivable, net		33,109	33,260
Investments		3,492,777	3,535,805
Property and equipment, net		2,103,275	2,058,644
Other assets		272,541	156,047
Interests in trusts and endowment funds held by others		103,231	106,019
Total assets	$	7,815,285	7,670,654
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	503,999	450,441
Deferred revenues and other liabilities		418,546	405,940
Payables and deferred revenues under split-interest agreements		70,500	68,731
Debt		1,432,048	1,454,207
Pension and postretirement obligations		326,247	162,214
Other long-term liabilities		230,542	177,076
Endowment and similar funds held for others		480,629	489,252
Total liabilities		3,462,511	3,207,861
Net assets:			
Unrestricted		1,899,596	1,997,486
Temporarily restricted		998,155	1,051,135
Permanently restricted		1,455,023	1,414,172
Total net assets		4,352,774	4,462,793
Total liabilities and net assets	$	7,815,285	7,670,654

See accompanying notes to financial statements.

THE JOHNS HOPKINS UNIVERSITY

Statements of Activities

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Changes in unrestricted net assets from operating activities:			
Operating revenues:			
Tuition and fees	$	706,209	672,433
Less financial aid		249,829	230,582
Tuition and fees, net of financial aid		456,380	441,851
Grants, contracts, and similar agreements		2,629,364	2,551,874
Clinical services		493,840	451,400
Reimbursements from affiliated institutions		405,208	361,187
Contributions		92,557	92,537
Investment return		150,732	154,552
Maryland State aid		16,690	16,662
Sales and services of auxiliary enterprises		91,709	86,035
Other revenues		136,154	128,558
Net assets released from restrictions		88,009	85,325
Total operating revenues		4,560,643	4,369,981
Operating expenses:			
Compensation and benefits		2,582,760	2,497,194
Contractual services		987,589	943,605
Supplies, materials, and other		518,526	494,511
Depreciation and amortization		188,920	179,138
Travel		112,277	99,493
Interest		55,574	57,870
Total operating expenses		4,445,646	4,271,811
Excess of operating revenues over operating expenses		114,997	98,170

THE JOHNS HOPKINS UNIVERSITY

Statements of Activities

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Changes in unrestricted net assets from nonoperating activities:		
Investment return	$ (36,838)	173,061
Change in benefit plans funded status, excluding benefit cost	(170,575)	129,617
Net assets released from restrictions	8,353	95,335
Loss on bond refinancing	(3,532)	—
Other, net	(10,295)	9,927
Change in unrestricted net assets from nonoperating activities	(212,887)	407,940
Total changes in unrestricted net assets	(97,890)	506,110
Changes in temporarily restricted net assets:		
Contributions	92,857	187,676
Investment return	(49,475)	163,212
Net assets released from restrictions	(96,362)	(180,660)
Total changes in temporarily restricted net assets	(52,980)	170,228
Changes in permanently restricted net assets:		
Contributions	40,218	118,196
Investment return	633	31,491
Total changes in permanently restricted net assets	40,851	149,687
Total changes in net assets	(110,019)	826,025
Net assets at beginning of year	4,462,793	3,636,768
Net assets at end of year	$ 4,352,774	4,462,793

See accompanying notes to financial statements.

THE JOHNS HOPKINS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Changes in net assets	$	(110,019)	826,025
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Depreciation, amortization, and loss on asset disposals		189,965	180,457
Contributions restricted for long-term investment		(77,040)	(108,831)
Net realized and unrealized gains from investments		(34,526)	(480,827)
Net unrealized (gains) losses from swaps		18,556	(14,167)
Change in benefit plans funded status		164,033	(129,617)
Changes in operating assets and liabilities:			
Accounts receivable, net		1,756	(57,804)
Contributions receivable, net		48,928	(131,546)
Prepaid expenses and deferred charges		(2,052)	1,205
Other assets		(99,008)	(35,432)
Accounts payable and accrued expenses		47,588	31,021
Deferred revenues and other liabilities		(5,950)	53,241
Investments, interests, and payables related to trusts and split-interest agreements		5,019	13,609
Other long-term liabilities		54,332	(2,821)
Net cash provided by operating activities		201,582	144,513
Cash flows from investing activities:			
Purchases of investments		(2,759,556)	(2,936,664)
Proceeds from sales and maturities of investments		2,794,000	2,968,877
Purchases of property and equipment		(228,903)	(228,022)
Disbursements for student loans		(5,315)	(4,959)
Repayments of student loans		5,466	5,431
Advances to affiliates		(28,024)	(38,555)
Joint venture dividends net of capital contributions		10,538	10,759
Change in deposits with bond trustees		—	2,202
Change in endowments held for others		(12,102)	14,629
Net cash used in investing activities		(223,896)	(206,302)
Cash flows from financing activities:			
Contributions restricted for long-term investment		77,040	108,831
Proceeds from borrowings		184,768	—
Repayment of commercial paper		—	(38,880)
Advance refinancing of debt		(183,325)	—
Loss on bond refinancing		3,532	—
Scheduled debt payments		(26,218)	(25,325)
Net cash provided by financing activities		55,797	44,626
Net increase (decrease) in cash and cash equivalents		33,483	(17,163)
Cash and cash equivalents at beginning of year		148,751	165,914
Cash and cash equivalents at end of year	$	182,234	148,751

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 net operating revenues in fiscal 2012 and 2011. 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 1,800 government and private sponsors. Grants, contracts, and similar agreements produced approximately 58% of the University's operating revenues in fiscal 2012 and 2011. Approximately 88% and 89% of these revenues come from departments and agencies of the United States government in fiscal 2012 and 2011, respectively. Major government sponsors include the Department of Health and Human Services, the Department of Defense, the National Aeronautics and Space Administration, and the Agency for International Development.

Professional medical services are provided by members of the University's faculty to patients at The Johns Hopkins Hospital (the Hospital) and other hospitals and outpatient care facilities in the Baltimore area and produced approximately 11% and 10% of the University's operating revenues in fiscal 2012 and 2011, 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 that the University does not control, including Dome Corporation, FSK Land Corporation, Johns Hopkins Healthcare LLC, Johns Hopkins Home Care Group, Inc., Johns Hopkins Medical Institutions Utilities LLC (JHMI Utilities LLC), and Johns Hopkins Medicine International LLC are accounted for using the equity method.

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

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 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) Cash, Cash Equivalents, and Operating Investments

The University utilizes cash, cash equivalents and operating investments to fund daily cash needs. Investments with maturities at dates of purchase of 90 days or less are classified as cash equivalents, and investments with maturities at dates of purchase of more than 90 days are classified as operating investments. Cash equivalents and operating investments include short-term U.S. Treasury securities and other highly liquid investments where the carrying amount approximates fair value.

Investments purchased with funds on deposit with bond trustees, with funds held in trusts by others, with split-interest agreements or by external endowment investment managers are classified with the respective assets.

(d) 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.

(e) Clinical Services

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

(f) Investments and Investment Return

Investments in United States government and agency obligations, debt securities, and directly held United States and international equities are stated at fair value, which are determined primarily based on quoted market prices. Investments in private equity and venture capital, certain real estate, natural resources, marketable alternatives, 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, 2012 and 2011, 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 estate 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.

(g) Property and Equipment

Property and equipment are 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 and is included in property and equipment on the balance sheets. 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) Fair Value Measurements

As of June 30, 2012 and 2011, the carrying values of the University's cash and cash equivalents, accounts receivable, contributions receivable, prepaid expenses, deferred charges and other assets, accounts payable, accrued expenses, and certain other liabilities approximate their fair values. An estimate of the fair value of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the United States government or its designees.

The carrying amounts of debt with variable interest rates, including commercial paper, approximate fair value because the rates reflect the current market rates for debt instruments with similar maturities and credit quality. The fair value of fixed rate debt is estimated based upon quoted market prices for publicly traded issues with similar terms and average maturities. The fair value estimates, at a specific point in time, are subjective in nature and involve judgment. The University is not obligated to settle its debt at fair value. The carrying amount and estimated fair value of the University's fixed rate debt is $934,302,000 and $1,057,471,000, respectively, as of June 30, 2012 and $945,055,000 and $1,019,790,000, respectively, as of June 30, 2011.

(Continued)

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 or liquidity of underlying assets and liabilities, but is determined by the transparency of the valuation inputs.

When observable prices are not available, investments are valued using one or more of the following valuation techniques: market approach – this approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities; income approach – this approach determines a valuation by discounting future cash flows; or cost approach – this approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset. These valuation techniques may include inputs such as price information, volatility statistics, operating statistics, specific and broad credit data, recent transactions, earnings forecasts, discount rates, reserve reports, futures pricing, and other factors.

(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. Assets and liabilities under the University's charitable gift annuity agreements were $54,930,000 classified in investments and $32,129,000 classified in payables and deferred revenues under split-interest agreements, respectively, as of June 30, 2012.

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 that arrange and provide professional liability, general liability, and property damage insurance for their shareholders. Defined portions of claims paid by these companies are self-insured. The University's claims liabilities are recognized as claims are incurred using actuarial studies based upon historical claims data, cost trends, and other actuarial estimates. Insurance expenses are recognized as operating expenses as incurred. In addition, the University is self-insured for certain other risks, primarily health and workers' compensation. Accrued self-insurance liabilities aggregated $58,277,000 and $59,005,000 as of June 30, 2012 and 2011, respectively.

In fiscal 2012, the University adopted Accounting Standards Update 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries,* (ASU 2010-24), which clarified that healthcare entities should not net insurance recoveries against the related claims liabilities on the balance sheet. In connection with the adoption of ASU 2010-24, the University recorded a receivable for insurance recoveries of $56,492,000, included as other assets, and an increase in its medical malpractice liabilities of $56,492,000 as of June 30, 2012. The adoption had no impact on the University's operations or cash flows.

(l) Sponsored Research Activities

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 $309,127,000 in fiscal 2012 and $299,332,000 in fiscal 2011. 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.

(n) 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 $29,881,000 and $30,114,000 as of June 30, 2012 and 2011, respectively.

(o) Income Taxes

The University is qualified as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from activities that are not related to its exempt purpose. The University annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements. No provision for income taxes was required for fiscal 2012 or 2011.

(p) 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.

(q) Derivative Financial Instruments

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

(r) Statement of Cash Flows

There were no significant noncash transactions in fiscal 2012 and 2011.

(2) Applied Physics Laboratory (APL)

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

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

The existing omnibus contract with NAVSEA expired on September 30, 2012. The University and the United States Navy (Navy) are engaged in discussions regarding entering into a similar long-term contract, and in light of the stable history of contracting with the Navy, management expects a contractual relationship with the Navy to continue. The existing NAVSEA contract allows for a twelve month period following its expiration date for additional funding and completion of existing task orders. There is no guaranty that a new contract is forthcoming.

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.

(3) Accounts Receivable

Accounts receivable, net, are summarized as follows as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Reimbursement of costs incurred under grants and contracts	$	323,176	335,555
FICA refund receivable		77,869	61,227
Affiliated institutions, primarily the Hospital (note 11)		33,061	32,207
Students		9,452	12,753
Others		30,013	36,746
Total research, training, students, and other, less allowances of $26,548 in 2012 and $31,545 in 2011		473,571	478,488
Receivables for clinical professional fees, net of contractual and bad debt allowances of $99,225 in 2012 and $91,313 in 2011		48,342	45,181
	$	521,913	523,669

Approximately 83% and 85%, respectively, of reimbursement of costs incurred under grants and contracts as of June 30, 2012 and 2011 were receivables from agencies or departments of the United States government.

In March 2010, the Internal Revenue Service (IRS) announced an administrative determination to accept the position that medical residents are exempt from Federal Insurance Contribution Act (FICA) taxes for calendar years 1991 to 2002. A corresponding liability of $67,548,000 and $55,152,000 as of June 30, 2012 and 2011, respectively, was recorded for the amounts paid by the medical residents, the Hospital, and other affiliates, which will be refunded once received by the IRS. In August 2012, the University was notified by the IRS that the claims were approved and that refund checks including interest were expected to be issued within eight to twelve weeks.

The mix of gross accounts receivable for medical services from patients and third-party payors consisted of the following as of June 30, 2012 and 2011: commercial third parties 44% and 41%, respectively; Medicare 19% and 18%, respectively; Medicaid 10% and 11%, respectively; Blue Cross/Blue Shield 8% and 9%, respectively; and patients 19% and 21%, respectively.

(4) Contributions Receivable

Contributions receivable, net, are summarized as follows as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Unconditional promises scheduled to be collected in:			
Less than one year	$	73,598	83,304
One year to five years		184,428	234,547
Over five years		7,429	4,421
		265,455	322,272
Less unamortized discount (interest ranging from 0.7% to 5.1%) and allowances for uncollectible contributions		18,971	26,860
	$	246,484	295,412

As of June 30, 2012 and 2011, 48% and 53%, respectively, of the gross contributions receivable were due from ten donors. Approximately 40% and 52% of contribution revenues for fiscal 2012 and 2011, respectively, were from ten donors. As of June 30, 2012, the University had also been informed of bequest intentions and conditional promises to give aggregating in excess of $450,000,000, 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. The Committee on Investments of the Board of Trustees 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 of June 30, 2012 and 2011 (in thousands):

		2012	2011
Operating investments	$	820,488	775,227
Investments		3,492,777	3,535,805
	$	4,313,265	4,311,032

	2012	2011
Cash and cash equivalents	$ 170,745	268,487
United States government and agency obligations	711,262	570,620
Debt securities	335,489	415,297
United States equities	417,341	388,829
International equities	696,055	775,661
Private equity and venture capital	538,002	541,547
Real estate	366,959	316,006
Natural resources	292,035	228,225
Marketable alternatives	703,996	724,168
Other	81,381	82,192
	$ 4,313,265	4,311,032

As of June 30, 2012 and 2011, other investments represent investments held by the University under deferred compensation agreements. Such amounts approximate the University's related liability to employees, which are included in other long-term liabilities.

The following table summarizes the University's investments as of June 30, 2012 and 2011 for which NAV was used as a practical expedient to estimate fair value (in thousands):

	Fair value determined using NAV		Unfunded commitments		Redemption frequency	Redemption notice period
	2012	2011	2012	2011	2012	2012
United States equities	$ 51,382	85,865	—	—	100% Quarterly	1 to 120 days
International equities	608,406	659,232	—	—	83% Monthly 12% Quarterly 5% Annually	1 to 120 days
Private equity and venture capital	538,002	541,547	217,771	207,070	N/A	N/A
Real estate	190,063	151,741	157,736	136,561	N/A	N/A
Natural resources	292,035	228,225	128,772	103,700	N/A	N/A
Marketable alternatives	703,996	724,168	76,720	80,530	See chart below	14 to 180 days
	$ 2,383,884	2,390,778	580,999	527,861		

Marketable alternatives have the following redemption periods as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Marketable alternatives:			
Quarterly redemptions	$	50,314	45,472
Annual redemptions		181,114	220,844
Quarterly or annual over 1- to 3-year period		169,790	166,628
Rolling 3-year redemption		43,170	27,938
Drawdown funds over 10-year period		259,608	263,286
	$	703,996	724,168

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

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

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

Natural resources: This includes limited partnerships making investments in oil and gas, timber, agriculture, minerals, and other commodities. 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.

Real estate: This includes limited partnerships making investments in real estate. These investments make distributions to investors through the liquidation of underlying assets. It is expected to take up to 15 years to fully distribute these assets.

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

Investment return is summarized as follows for the years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Dividend and interest income	$ 49,023	56,997
Net realized and unrealized gains	36,369	472,804
External investment management fees and expenses	(18,497)	(15,508)
Change in value of interests in trusts and endowment funds held by others	(1,843)	8,023
	$ 65,052	522,316

Investment return is classified in the statements of activities as follows for the years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Unrestricted net assets:		
Operating	$ 150,732	154,552
Nonoperating	(36,838)	173,061
Temporarily restricted net assets	(49,475)	163,212
Permanently restricted net assets	633	31,491
	$ 65,052	522,316

(Continued)

(6) Fair Value Measurements

The following table presents assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2012 (in thousands):

	Fair value as of June 30, 2012	Level 1	Level 2	Level 3
Assets:				
Operating investments:				
United States government and agency obligations	$ 513,280	513,280	—	—
Debt securities	307,208	307,208	—	—
Total operating investments	820,488	820,488	—	—
Investments:				
Cash and cash equivalents	170,745	170,745	—	—
United States government and agency obligations	197,982	197,982	—	—
Debt securities	28,281	28,281	—	—
United States equities	417,341	365,959	51,382	—
International equities	696,055	87,649	608,406	—
Private equity and venture capital	538,002	—	—	538,002
Real estate	366,959	16,685	—	350,274
Natural resources	292,035	—	—	292,035
Marketable alternatives	703,996	—	50,314	653,682
Other	81,381	81,381	—	—
Total investments	3,492,777	948,682	710,102	1,833,993
Other assets:				
Deposits with bond trustees	558	558	—	—
Interests in trusts and endowment funds held by others	103,231	—	76,110	27,121
Total assets	$ 4,417,054	1,769,728	786,212	1,861,114
Liabilities:				
Interest rate swaps	$ 34,461	—	34,461	—
Obligations under deferred compensation agreements	81,050	—	81,050	—
Endowment and similar funds held for others	480,629	—	—	480,629
Total liabilities	$ 596,140	—	115,511	480,629

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

	Fair value as of June 30, 2011	Level 1	Level 2	Level 3
Assets:				
Operating investments:				
United States government and agency obligations	$ 401,547	401,547	—	—
Debt securities	373,680	373,680	—	—
Total operating investments	775,227	775,227	—	—
Investments:				
Cash and cash equivalents	268,487	268,487	—	—
United States government and agency obligations	169,073	169,073	—	—
Debt securities	41,617	41,617	—	—
United States equities	388,829	302,964	85,865	—
International equities	775,661	116,429	659,232	—
Private equity and venture capital	541,547	—	—	541,547
Real estate	316,006	16,022	—	299,984
Natural resources	228,225	—	—	228,225
Marketable alternatives	724,168	—	45,472	678,696
Other	82,192	82,192	—	—
Total investments	3,535,805	996,784	790,569	1,748,452
Other assets:				
Deposits with bond trustees	554	554	—	—
Interests in trusts and endowment funds held by others	106,019	—	78,223	27,796
Total assets	$ 4,417,605	1,772,565	868,792	1,776,248
Liabilities:				
Interest rate swaps	$ 15,905	—	15,905	—
Obligations under deferred compensation agreements	82,128	—	82,128	—
Endowment and similar funds held for others	489,252	—	—	489,252
Total liabilities	$ 587,285	—	98,033	489,252

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 is 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.

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, 2012 and 2011 (in thousands):

	Private equity and venture capital	Real estate	Natural Resources	Marketable alternatives	Interests in trusts and endowments held by others	Total
Assets:						
Balance as of June 30, 2010	$ 457,879	235,054	191,525	680,124	24,329	1,588,911
Transfers from Level 2	—	—		50,593	—	50,593
Dividend and interest income	6,612	637	6,726	2,395	—	16,370
Net realized and unrealized gains	109,869	32,086	29,022	106,713	3,467	281,157
Purchases and calls	53,041	45,391	35,707	43,617	—	177,756
Sales and distributions	(85,854)	(13,184)	(34,755)	(204,746)	—	(338,539)
Balance as of June 30, 2011	541,547	299,984	228,225	678,696	27,796	1,776,248
Dividend and interest income	6,348	1,660	1,495	4,243	—	13,746
Net realized and unrealized gains (losses)	58,104	23,173	32,490	(1,883)	(675)	111,209
Purchases and calls	65,568	52,404	57,209	58,144	—	233,325
Sales and distributions	(133,565)	(26,947)	(27,384)	(85,518)	—	(273,414)
Balance as of June 30, 2012	$ 538,002	350,274	292,035	653,682	27,121	1,861,114

	Endowment and similar funds held for others
Liabilities:	
Balance as of June 30, 2010	$ 399,981
Net realized and unrealized gains	74,642
Purchases and issuances	32,186
Sales and settlements	(17,557)
Balance as of June 30, 2011	489,252
Net realized and unrealized gains	3,479
Purchases and issuances	8,279
Sales and settlements	(20,381)
Balance as of June 30, 2012	$ 480,629

For the years ended June 30, 2012 and 2011, the University did not have any transfers between fair value Levels 1 and 2. As of June 30, 2012 and 2011, investments that were no longer redeemable within 90 days after June 30, 2012 or 2011, respectively, were transferred to Level 3 from Level 2.

(7) Property and Equipment

Property and equipment, net, are summarized as follows as of June 30, 2012 and 2011 (in thousands):

	2012	2011	Range of useful lives
Land	$ 76,324	76,324	N/A
Land improvements	84,975	83,778	15 years
Buildings and leasehold improvements	2,678,694	2,504,818	10 – 40 years
Equipment	718,738	670,951	7 – 15 years
Capitalized software costs	111,217	108,246	3 – 10 years
Library collections	241,054	227,933	25 years
Construction in progress	146,111	183,065	N/A
	4,057,113	3,855,115	
Less accumulated depreciation and amortization	1,953,838	1,796,471	
	$ 2,103,275	2,058,644	

(8) Debt

Debt is summarized as follows as of June 30, 2012 and 2011 (in thousands):

	2012	2011
Bonds payable	$ 997,313	1,011,698
Notes payable	97,027	107,267
Commercial paper revenue notes – tax-exempt	255,528	257,610
Commercial paper revenue notes – taxable	28,628	22,588
Capital lease obligations (note 14)	53,552	55,044
	$ 1,432,048	1,454,207

(a) Bonds Payable

Bonds payable, except for the Revenue Bonds of 2009A issued directly, were issued by Maryland Health and Higher Educational Facilities Authority (MHHEFA), and consist of the following as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Refunding Revenue Bonds of 2001A, 5.00%, due July 2013, including unamortized premium of $82 in 2011	$	—	8,442
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized premium of $340 in 2012 and unamortized discount of $1,276 in 2011		15,340	84,499
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,367 in 2011		—	105,357
Revenue Bonds of 2004A, 4.625% to 5.00%, due July 2038, including unamortized premium of $947 in 2012 and $993 in 2011		93,452	93,498
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 $5,007 in 2012 and $5,274 in 2011		134,887	135,154
Refunding Revenue Bonds of 2008B, variable rate, due July 2027		105,830	115,700
Revenue Bonds of 2009A, 5.25%, due July 2019, net of unamortized discount of $189 in 2012 and $217 in 2011		399,811	399,783
Refunding Revenue Bonds of 2012A, 4.00% to 5.00%, due July 2041, including unamortized premium of $25,578 in 2012		178,728	—
	$	997,313	1,011,698

The bonds payable outstanding as of June 30, 2012 and 2011 are unsecured general obligations of the University. The loan agreements generally provide for semiannual or annual payments of interest. The Revenue Bonds of 2005A bear interest at a variable rate, which is reset on a weekly basis (0.12% and 0.05% at June 30, 2012 and June 30, 2011, respectively) and provide for monthly payments of interest. The Revenue Bonds of 2008B bear interest at a variable rate, which is reset on a weekly basis (0.16% and 0.04% at June 30, 2012 and June 30, 2011, respectively) and provide for monthly payments of interest. No principal payments are due on the Refunding Revenue Bonds of 2001B, the Revenue Bonds of 2005A, or the Revenue Bonds of 2009A prior to maturity. The Revenue Bonds of 2004A provide for serial principal payments prior to maturity of $9,100,000, $10,000,000, $10,000,000, and $23,405,000 in 2020, 2024, 2029, and 2033, respectively. The Revenue Bonds of 2008A provide for serial principal payments prior to maturity of $15,000,000 and $30,000,000 in 2013 and 2018, respectively.

In June 2012, the University, through MHHEFA, issued fixed rate tax-exempt bonds of $153,150,000 (Series 2012A). The bonds consist of $80,600,000 of serial bonds with maturities starting 2023 through 2032 and $72,550,000 of term bonds with maturities of 2037 and 2041. The Revenue Bonds of 2012A are subject to redemption prior to final maturity; the bonds are initially interest only until 2023 and then provide for annual principal payments of $8,060,000 starting in 2023 through 2039 and annual principal payments of 8,065,000 in 2040 and 2041. Proceeds from the Series 2012A Bonds were used to refund the Series 2002A bonds and a portion of the Series 2001B Bonds. As a result of this refunding, the University recognized a loss of approximately $3,532,000 in fiscal 2012, which reflects prepayment costs as well as the write-off of unamortized bond issuance costs and original issue discounts associated with the Series 2001B and 2002A Bonds.

(b) Notes Payable

Notes payable consist of the following as of June 30, 2012 and 2011 (in thousands):

		2012	2011
MHHEFA note due June 2013	$	3,910	4,156
MHHEFA note due November 2015		16,000	20,006
MHHEFA note due November 2020		10,433	11,312
MHHEFA note due February 2025		3,268	3,462
MHHEFA note due July 2026		4,884	5,053
Note due June 2012, 5.34%		—	299
Note due December 2019, 8.88%		47,863	51,867
Note due February 2014, 4.75%		7,800	8,036
Note due February 2044, 4.75%		1,878	1,878
Note due March 2017, 2.25%		991	1,198
	$	97,027	107,267

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 (0.50% at June 30, 2012) in monthly installments. Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances (none required as of June 30, 2012 or 2011).

The note due December 2019 is secured by certain of the University's property and is due in annual installments with interest payable monthly.

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

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

(c) Commercial Paper

The commercial paper revenue notes-tax-exempt 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, 2012 bear interest at a weighted average rate of 0.16%.

(d) Interest Costs

Total interest costs incurred and paid were $58,729,000 in 2012 and $75,624,000 in 2011, of which $4,734,000 in 2012 and $5,507,000 in 2011 were capitalized. Accrued interest as of June 30, 2012 and 2011 was $416,000 and $121,000, respectively. There was no interest income in 2012 or 2011 earned from the investment of the unexpended proceeds of certain tax-exempt borrowings.

(e) Debt Covenants

Certain of the University's debt agreements include covenants that require the University to maintain minimum levels of financial ratio. Management believes the University was in compliance with its covenant requirements as of and for year ended June 30, 2012.

(f) Other Credit Agreements

To support liquidity requirements under the bond and commercial paper revenue notes programs with MHHEFA, the University has two standby liquidity support agreements with commercial banks in the amount of $300,000,000 and $100,000,000, with maturity dates of May 2013 and April 2014, respectively. These agreements would provide funds to the University in the event that the variable rate demand 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 2012 and 2011.

Under terms of a master note agreement with a commercial bank, the University may borrow up to $100,000,000 under a line of credit for APL working capital purposes. Advances under the line of credit are unsecured, due on demand, and bear interest at a rate that varies based on certain market indices. The fee for this agreement was renegotiated in March 2011 from 5 basis points annually to 6 basis points for a 2-year term and the unused line fee from 15 basis points per annum to 14 basis points per annum. There were no borrowings outstanding on the line of credit as of June 30, 2012 or 2011.

(g) 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 required to post collateral under these agreements under certain events. As of June 30, 2012, $14,100,000 was held by the counterparty and was included in cash and cash equivalents, of which $11,700,000 was required collateral.

The following table summarizes the general terms of cash of the University's swap agreements:

	Effective date	Notional amount	Termination date	Interest rate paid	Interest rate received
Fixed payor swap	June 2005	$ 69,265,000	July 2036	3.87%	SIFMA 0.20% as of June 30, 2012
Fixed payor swap	July 2007	10,935,000	July 2027	3.45	67.00% of 1-month LIBOR 0.16% as of June 30, 2012
Fixed payor swap	July 2008	104,765,000	July 2020	3.43	67.00% of 1-month LIBOR 0.16% as of June 30, 2012

In February 2011, the University terminated a $115,000,000 fixed payor swap.

The fair value of each swap is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date considering current interest rates and creditworthiness of the swap counterparties. The aggregate fair value of the University's interest rate swap agreements as of June 30, 2012 and 2011 was a liability of $34,461,000 and $15,905,000, respectively, excluding accrued interest 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 $18,556,000 and a gain of approximately $13,597,000, net of the swap termination fee, in fiscal 2012 and fiscal 2011, respectively.

(h) 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, 2012 (in thousands):

	Bonds payable	Notes payable	Commercial paper notes	Total
2013	$ 25,380	14,355	9,963	49,698
2014	10,905	18,549	17,240	46,694
2015	11,485	11,858	6,859	30,202
2016	12,085	9,657	14,006	35,748
2017	12,725	7,947	12,551	33,223

(9) Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Contributions restricted for departments and divisions	$	334,441	323,563
Endowment return restricted for departments, divisions, and student aid		473,226	524,071
Contributions restricted for facilities		83,661	97,554
Split-interest agreements designated for departmental and divisional support		32,827	32,947
Land subject to time and purpose restrictions		74,000	73,000
	$	998,155	1,051,135

Permanently restricted net assets consist of donor-restricted endowment funds, perpetual trusts, and contributions receivable, in which income is available for the following purposes as of June 30, 2012 and 2011 (in thousands):

		2012	2011
Departmental and divisional support	$	1,180,124	1,161,492
Student aid		274,899	252,680
	$	1,455,023	1,414,172

(10) University Endowment

The University's endowment consists of approximately 3,400 individual funds established for a variety of purposes and includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the University has interpreted the Maryland enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

The Board of Trustees of the University manages and invests the individual endowment funds in the exercise of ordinary business care and prudence under facts and circumstances and considering the purposes, factors, and other requirements of UPMIFA. The University classifies as permanently restricted net assets (a) the original value of gifts donated, which are donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment, which are not expendable on a current basis in accordance with the directions of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees, or, if in an underwater position (fair value below historical cost), as unrestricted net assets. Subsequent gains that restore the fair value of underwater endowments to the required level will be classified as an increase in 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, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (17,774)	473,226	1,274,456	1,729,908
Board-designated endowment funds	863,408	—	—	863,408
	$ 845,634	473,226	1,274,456	2,593,316

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

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

Changes in endowment net assets for the years ended June 30, 2011 and 2012 are as follows (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$	711,737	390,722	1,124,206	2,226,665
Investment return		188,245	204,426	9,176	401,847
Contributions and designations		20,619	(88)	73,089	93,620
Appropriation for expenditure		(52,676)	(70,989)	—	(123,665)
Endowment net assets, June 30, 2011		867,925	524,071	1,206,471	2,598,467
Investment return		11,006	22,073	6,091	39,170
Contributions and designations		18,234	(109)	61,894	80,019
Appropriation for expenditure		(51,531)	(72,809)	—	(124,340)
Endowment net assets, June 30, 2012	$	845,634	473,226	1,274,456	2,593,316

(11) Affiliated Institutions

Reimbursements from affiliated institutions consist of the following for the years ended June 30, 2012 and 2011 (in thousands):

		2012	2011
Johns Hopkins Health System	$	23,042	18,236
Johns Hopkins Hospital		239,502	219,652
Johns Hopkins Bayview Medical Center		59,238	53,751
Other Johns Hopkins entities		47,739	37,308
Other affiliated medical institutions		35,687	32,240
	$	405,208	361,187

(a) The Johns Hopkins Health System (JHHS)

JHHS is incorporated and governed separately from the University and is the parent entity of an academically based health system, which includes the Hospital, The Johns Hopkins Bayview

Medical Center, Howard County General Hospital, Suburban Hospital, Sibley Memorial Hospital, All Children's Hospital, and other related organizations. The University and JHHS have established a Board of Johns Hopkins Medicine (JHM) to direct, integrate, and coordinate the clinical activities of the two organizations. JHM does not have the authority to incur debt or issue guarantees and its annual budgets require the approval of the boards of trustees of both the University and JHHS.

In fiscal 2011, the University contributed $5,000,000 to JHHS to support certain JHHS initiatives, including but not limited to JHHS facility renovation and construction, which are reported as operating expenses in the statements of activities. The University contributed an additional $5,000,000 in fiscal 2011, 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 $170,937,000 in fiscal 2012 and $157,569,000 in fiscal 2011 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 $40,998,000 in fiscal 2012 and $40,267,000 in fiscal 2011, and are included in operating expenses in the statements of activities.

(c) Johns Hopkins Bayview Medical Center (JHBMC)

JHBMC is a community-based teaching hospital and long-term care facility. The University and JHBMC also share facilities and provide services to each other and negotiate the costs annually under a JAA. Costs charged to JHBMC under the JAA, related primarily to the provision of professional medical services from the University, aggregated $55,579,000 in fiscal 2012 and $50,840,000 in fiscal 2011 and are included in reimbursements from affiliated institutions in the statements of activities.

(d) The Johns Hopkins Hospital Endowment Fund (JHHEFI)

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 $382,796,000 and $388,153,000 is included in endowment and similar funds held for others as of June 30, 2012 and 2011, respectively.

(e) Jointly Owned Entities

As of June 30, 2012 and 2011, the University and JHHS and its affiliates jointly own several entities that are accounted for on the equity method. The University's aggregate investment in these joint ventures was approximately $79,676,000 and $66,291,000 as of June 30, 2012 and 2011, respectively and is included in other assets in the balance sheets. Equity in earnings of affiliates aggregated approximately $24,137,000 in fiscal 2012 and $21,437,000 in fiscal 2011 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 2012 and 2011 were approximately $32,819,000 and $33,585,000, respectively. In 2012, JHHS and the University began the implementation through JHMI Utilities of an electronic medical record system (EPIC) across Johns Hopkins Medicine which will provide integrated patient care information. The first phase of the systems implementation will occur at the ambulatory sites of Johns Hopkins Medicine. The cost of implementing the enterprise information technology strategy will be financed through a combination of loans from the University and JHHS. The first phase of the project will cost approximately $90,000,000. The University will be providing 30% or $27,000,000 of the funding.

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, 2012 and 2011, respectively, (in thousands):

	2012		2011	
	Total	**University interest**	**Total**	**University interest**
Assets	$ 678,816	302,755	521,347	230,507
Liabilities	499,878	224,074	362,828	164,216
Operating revenues	1,592,154	636,573	1,465,362	584,432
Operating expenses	1,504,081	612,671	1,361,372	562,995

(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 $184,167,000 in fiscal 2012 and $179,544,000 in fiscal 2011, including $159,116,000 and $147,411,000, respectively, related to defined contribution plans. Of the total pension expense, APL's defined contribution plan accounted for $53,599,000 in fiscal 2012 and $51,450,000 in fiscal 2011.

Effective July 1, 2011, the University closed the support staff pension plan to new participants. In addition, the University offered a choice to current participants between the current support staff pension plan and the new Johns Hopkins 403b plan. The University has retiree benefits plans that provide postretirement medical benefits to employees, including those at APL, who meet specified minimum age and service requirements at the time they retire. The University pays a portion of the cost of participants' medical insurance coverage. The University's portion of the cost for an individual participant depends on various factors, including the age, years of service, and time of retirement or retirement eligibility of the participant. The University has established a trust fund for its retiree benefits plans and intends to make contributions to the fund approximately equal to the annual net postretirement benefit cost.

Effective October 1, 2011, APL made certain changes to the postretirement medical benefits. APL placed a cap on premiums paid beginning in 2017 on active staff retiring after December 31, 2012. APL also will provide no contributions to premiums to staff hired after December 31, 2011.

The actuarial losses in 2012 are primarily related to the 150 basis point reduction in the discount rate. Actuarial gains in 2011 are attributable primarily to lower average medical claims experience and changes in the mix of retiree ages (pre-65 and post-65), which was supported by continued historical plan data.

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law. The Health Care Acts include several provisions that may affect the University's postretirement benefit plans, including imposing an excise tax on high-cost coverage, eliminating lifetime and annual coverage limits, reducing subsidies to Medicare Advantage plans, and imposing inflation-adjusted fees for each person covered by a health insurance policy for each policy plan year ending after September 30, 2012 through September 30, 2019. The University has evaluated the effects of the Health Care Acts and concluded that the provisions that affect its postretirement benefit plans are the elimination of lifetime coverage limits and the inflation-adjusted fee.

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, 2012 and 2011 is summarized as follows (in thousands):

	Pension plan		Postretirement plans	
	2012	**2011**	**2012**	**2011**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 430,241	405,468	256,188	290,984
Service cost	17,106	19,020	8,560	15,433
Interest cost	23,864	22,273	11,577	16,606
Plan amendments	—	(2,282)	(38,282)	—
Participant contributions	—	—	6,630	6,068
Actuarial (gain) loss	131,338	(2,697)	41,742	(58,501)
Benefits paid	(13,282)	(11,541)	(18,198)	(16,148)
Medicare subsidies received	—	—	1,793	1,746
Benefit obligation at end of year	589,267	430,241	270,010	256,188
Change in plan assets:				
Fair value of plan assets at beginning of year	318,843	251,668	205,372	152,953
Actual return on plan assets	(1,099)	46,618	(2,930)	30,873
University contributions	23,984	32,098	11,916	29,881
Participant contributions	—	—	6,630	6,068
Benefits paid	(13,282)	(11,541)	(18,198)	(16,148)
Medicare subsidies received	—	—	1,794	1,745
Fair value of plan assets at end of year	328,446	318,843	204,584	205,372
Funded status recognized as other long-term liabilities	$ (260,821)	(111,398)	(65,426)	(50,816)
Cumulative amounts recognized in unrestricted net assets:				
Net loss	$ (251,260)	(101,575)	(94,717)	(35,941)
Prior service cost	1,742	1,909	24,510	(12,036)
Transition obligation	—	—	(1,507)	(3,014)
Amount not yet recognized as pension or postretirement benefit cost (within operating expense)	$ (249,518)	(99,666)	(71,714)	(50,991)

The accumulated benefit obligation for the pension plan was $541,452,000 as of June 30, 2012 and $396,110,000 as of June 30, 2011.

The table below reflects the changes in plan assets and benefits obligations recognized as nonoperating items for the years ended June 30, 2012 and 2011 (in thousands):

	Pension plan		Postretirement plans	
	2012	**2011**	**2012**	**2011**
Net (gain) loss for the year	$ 155,049	(30,614)	59,871	(77,305)
Prior service cost	—	(2,282)	(38,282)	—
Amortization of net transition obligation	—	—	(1,506)	(1,506)
Amortization of prior service cost	167	(232)	1,736	(1,393)
Amortization of net loss	(5,364)	(9,274)	(1,096)	(7,011)
Net (gain) loss recognized in nonoperating activities	$ 149,852	(42,402)	20,723	(87,215)

The table below reflects the amortization of amounts expected to be recognized as components of net periodic benefit expense in operating expense during 2013 (in thousands):

	Pension plan	Postretirement plans
Net loss	$ (16,798)	(4,556)
Prior service cost	167	1,736
Transition obligation	—	(1,508)
	$ (16,631)	(4,328)

The net pension cost reported in operating expenses includes the following components for the years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Service cost	$ 17,106	19,020
Interest cost on accumulated benefit obligation	23,864	22,273
Amortization of prior service cost	(167)	232
Expected return on plan assets	(22,612)	(18,701)
Amortization of net loss	5,364	9,274
	$ 23,555	32,098

The postretirement benefit cost reported in operating expenses includes the following components for the years ended June 30, 2012 and 2011 (in thousands):

		2012	2011
Service cost	$	8,560	15,433
Interest cost on accumulated benefit obligation		11,577	16,606
Expected return on plan assets		(15,200)	(12,002)
Amortization of transition obligation		1,506	1,506
Amortization of prior service cost		(1,736)	1,393
Amortization of actuarial loss		1,096	7,011
	$	5,803	29,947

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

	Pension plan		Postretirement plans	
	2012	2011	2012	2011
Weighted average assumptions used to determine benefit obligations at June 30:				
Discount rate	4.10%	5.60%	4.10%	5.60%
Rate of compensation increase	4.50	4.50	N/A	N/A
Rate of increase in healthcare costs for next year	N/A	N/A	7.40	7.50
Weighted average assumptions used to determine net periodic benefit cost:				
Discount rate	5.60%	5.50%	5.60%	5.50%
Expected rate of return on plan assets	7.00	7.50	7.50	7.50
Rate of compensation increase	4.50	4.50	N/A	N/A
Rate of increase in healthcare costs	N/A	N/A	7.50	7.70

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 healthcare costs was assumed to decrease to 4.50% in 2028 and to remain at that level thereafter. Assumed healthcare cost trend rates have a significant effect on the reported postretirement benefit cost and obligation. A one-percentage-point change in the assumed rates used at June 30, 2012 would have the following effects (in thousands):

		Increase	Decrease
Total service and interest cost components	$	844	(746)
Postretirement benefit obligation		12,332	(10,788)

(a) Plans' Assets

The purpose of the pension and postretirement 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 plans and minimize the frequency and amount of the plans' contributions by the University. The intended benefits of this diversification are reduced risk and improved investment returns.

The University's target asset and actual asset allocations by category as of June 30, 2012 and 2011 are as follows:

	Pension plan			Postretirement plans		
	Target allocation	Actual allocation 2012	Actual allocation 2011	Target allocation	Actual allocation 2012	Actual allocation 2011
Cash and cash equivalents	—%	1%	7%	—%	1%	13%
U.S. government obligations	5	—	9	—	—	5
Debt securities	25	24	22	35	27	23
United States and international equities	50	64	53	65	64	59
Real estate	15	4	3	—	—	—
Marketable alternatives	5	7	6	—	8	—
	100%	100%	100%	100%	100%	100%

(b) Pension plan

The following tables present the fair value and categorization within the fair value hierarchy of the assets of the defined benefit pension plan at June 30, 2012 and 2011 (in thousands):

	2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 3,806	3,806	—	—
Debt securities	79,717	—	79,717	—
United States equities	83,088	52,395	30,693	—
International equities	126,012	40,070	85,942	—
Real estate	11,568	—	11,568	—
Marketable alternatives	24,255	—	6,253	18,002
Total	$ 328,446	96,271	214,173	18,002

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

Defined benefit plan investments that are determined using NAV per share as a practical expedient for estimated fair value aggregated $232,175,000 and $212,280,000 as of June 30, 2012 and 2011, respectively. These investments are classified in the fair value hierarchy as Level 2 or 3 in a manner consistent with the methodology described in note (1)(h). The Plan has no unfunded commitments to fund managers as of June 30, 2012.

The following table presents the activity for the University's pension plan Level 3 investments for the years ended June 30, 2012 and 2011 (in thousands):

		Real estate	Marketable alternatives	Total
Balance as of June 30, 2010	$	9,210	10,492	19,702
Transfers (to) from Level 2		(9,210)	374	(8,836)
Net realized and unrealized gains		—	1,773	1,773
Balance as of June 30, 2011		—	12,639	12,639
Net realized and unrealized gains		—	363	363
Purchases/calls		—	5,000	5,000
Balance as of June 30, 2012	$	—	18,002	18,002

(c) Postretirement plans

The following tables present the fair value and categorization within the fair value hierarchy of the assets of the postretirement plans at June 30, 2012 and 2011 (in thousands):

	2012				
		Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$	2,601	2,601	—	—
Debt securities		55,046	—	55,046	—
United States equities		61,053	49,004	12,049	—
International equities		70,190	6,669	63,521	—
Marketable alternatives		15,694	—	—	15,694
Total	$	204,584	58,274	130,616	15,694

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

Postretirement plans' investments that are determined using NAV per share as a practical expedient for estimated fair value aggregated $146,310,000 and $117,540,000 as of June 30, 2012 and 2011, respectively. These investments are classified in the fair value hierarchy as Level 2 or 3 in a manner consistent with the methodology described in note (1)(h). The Plans have no unfunded commitments to fund managers as of June 30, 2012.

The University's retiree medical benefits trust level 3 investment activity for 2012 included purchases of $15,000,000 and unrealized gains $694,000.

(d) Cash Flows

The University expects to contribute $12,228,000 to its postretirement benefit plans in 2012. The University expects to contribute $40,578,000 to the pension plan in 2012.

The benefits expected to be paid and Medicare subsidies to be received in the five years subsequent to June 30, 2012 and in aggregate for the five years thereafter are as follows (in thousands):

		Pension plan	Postretirement plans	Medicare subsidies
2013	$	15,890	12,845	2,595
2014		16,933	13,677	2,906
2015		18,425	14,514	3,271
2016		19,603	15,427	3,656
2017		21,150	16,509	4,092
2018 – 2022		133,804	100,403	14,342

(13) Functional Expense Information

Operating expenses by function are summarized as follows for the years ended June 30, 2012 and 2011 (in thousands):

		2012	2011
Instruction, research, and clinical practice:			
Academic and support divisions	$	2,773,587	2,592,836
APL contracts		1,046,062	1,080,254
Student services		88,795	86,155
Libraries		40,805	39,893
General services and administration		396,911	375,432
Auxiliary enterprises		99,486	97,241
	$	4,445,646	4,271,811

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

(14) Lease Commitments

The University leases certain facilities from the Hospital under a renewable one-year lease, which provides for a rent equal to the cost to the Hospital of providing and maintaining the facilities. This lease has been renewed for the year ended June 30, 2013.

The University leases other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2032, 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, 2012 (in thousands):

	Affiliates	Others	Total
2013	$ 7,296	28,398	35,694
2014	6,597	24,969	31,566
2015	6,334	23,134	29,468
2016	4,884	20,084	24,968
2017	4,142	15,163	19,305
After 2017	17,962	44,573	62,535
	$ 47,215	156,321	203,536

Rental expense for the long-term operating leases was $44,174,000 in fiscal year 2012 and $46,863,000 in fiscal year 2011.

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, 2012 (in thousands):

2013	$ 5,775
2014	5,942
2015	6,114
2016	6,291
2017	6,474
After 2017	63,210
Minimum lease payments	93,806
Less imputed interest (at rates from 4.51% to 8.41%)	40,254
Present value of minimum lease payments	$ 53,552

As of June 30, 2012, the gross amount of assets and accumulated depreciation thereon accounted for as capital leases property amounted to $60,720,000 and $18,449,000, 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, 2012, the University's guarantee amounted to $23,675,000 and the Hospital's guarantee amounted to $16,912,000. The University's guarantees continue until maturity of the loans in 2017.
- The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of $385,000) due under a loan issued by MHHEFA to JHHS to finance the acquisition of Howard County General Hospital. This guarantee continues until maturity of the loan in 2033.
- The University, through a participation agreement with an unrelated third party, has guaranteed payment of certain financing of East Baltimore Development, Inc. up to $3,750,000. This guarantee continues until maturity of the loan in October 2014.

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

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

(16) Subsequent Events

The University evaluated subsequent events through October 20, 2012, 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.