

**The Johns Hopkins Hospital**  
**Financial Statements**  
**June 30, 2011 and 2010**

**The Johns Hopkins Hospital**  
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**June 30, 2011 and 2010**

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## REPORT OF INDEPENDENT AUDITORS

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To the Board of Trustees of  
The Johns Hopkins Hospital:

In our opinion, the accompanying balance sheets and the related statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of The Johns Hopkins Hospital ("JHH") at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of JHH's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

September 28, 2011

**The Johns Hopkins Hospital**  
**Balance Sheets**  
**June 30, 2011 and 2010**  
**(in thousands)**

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 153,388	\$ 252,389
Short-term investments	89,230	86,885
Assets whose use is limited for current liabilities	9,370	9,370
Patient accounts receivable, net of estimated uncollectibles of \$47,114 and \$49,696 at June 30, 2011 and 2010, respectively	167,573	125,820
Due from others	21,302	17,539
Due from affiliates - current portion	2,876	3,656
Inventories of supplies	36,281	35,011
Prepaid expenses and other current assets	5,484	5,142
Total current assets	485,504	535,812
Assets whose use is limited, net of current		
By donors or grantors for:		
Future campus development	7,516	74,969
Pledges receivable	25,614	23,831
By Board of Trustees	61,758	65,402
Malpractice funding arrangement	0	3,944
Other	6,549	4,798
Total assets whose use is limited, net of current	101,437	172,944
Investments	587,003	381,454
Property, plant and equipment	1,850,549	1,703,948
Less: accumulated depreciation and amortization	(514,360)	(530,107)
Total property, plant and equipment, net	1,336,189	1,173,841
Due from affiliates, net of current portion	54,641	65,894
Net pension asset	1,878	-
Other assets	4,648	4,848
Total assets	\$ 2,571,300	\$ 2,334,793

The accompanying notes are an integral part of these financial statements.

**The Johns Hopkins Hospital**  
**Balance Sheets, continued**  
**June 30, 2011 and 2010**  
**(in thousands)**

	2011	2010
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 124,995	\$ 13,415
Accounts payable and accrued liabilities	199,077	168,930
Accrued vacation	16,755	16,509
Due to affiliates	8,782	7,223
Advances from third-party payors	66,903	73,064
Current portion of estimated malpractice costs	1,235	2,317
Total current liabilities	<u>417,747</u>	<u>281,458</u>
Long-term debt, net of current portion	643,252	763,969
Estimated malpractice costs, net of current portion	39,943	36,305
Net pension liability	133,270	172,211
Other long-term liabilities	127,166	149,578
Total liabilities	<u>1,361,378</u>	<u>1,403,521</u>
Net assets:		
Unrestricted	748,394	532,768
Temporarily restricted	461,528	398,504
Total net assets	<u>1,209,922</u>	<u>931,272</u>
Total liabilities and net assets	<u>\$ 2,571,300</u>	<u>\$ 2,334,793</u>

The accompanying notes are an integral part of these financial statements.

**The Johns Hopkins Hospital**  
**Statements of Operations and Changes in Net Assets**  
**For the years ended June 30, 2011 and 2010**  
**(in thousands)**

	2011	2010
Operating revenues:		
Net patient service revenue	\$ 1,585,310	\$ 1,544,364
Other revenue	130,577	121,995
Investment income	14,145	10,912
Net assets released from restrictions used for operations	245	199
Total operating revenues	<u>1,730,277</u>	<u>1,677,470</u>
Operating expenses:		
Salaries, wages and benefits	667,347	648,002
Purchased services	497,833	469,357
Supplies and other	346,880	338,350
Interest	9,861	10,819
Provision for bad debts	38,243	46,139
Depreciation and amortization	69,357	65,432
Total operating expenses	<u>1,629,521</u>	<u>1,578,099</u>
Income from operations	100,756	99,371
Non-operating revenues and expenses:		
Interest expense on swap agreements	(19,078)	(19,115)
Change in market value of swap agreements	24,207	(32,290)
Realized and unrealized gains on investments	27,049	2,717
Excess of revenues over expenses	<u>132,934</u>	<u>50,683</u>
Contributions from affiliates	31,200	45,720
Unrealized (losses) gains on investments	(1,145)	7,659
Change in funded status of defined benefit plans	49,240	(40,248)
Net assets released from restrictions used for purchases of property and equipment	3,397	89,080
Increase in unrestricted net assets	<u>215,626</u>	<u>152,894</u>
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	66,666	31,074
Net assets released from restrictions used for purchase of property, plant and equipment	(3,397)	(89,080)
Net assets released from restrictions used for operations	(245)	(199)
Increase (decrease) in temporarily restricted net assets	<u>63,024</u>	<u>(58,205)</u>
Increase in net assets	278,650	94,689
Net assets at beginning of year	<u>931,272</u>	<u>836,583</u>
Net assets at end of year	<u>\$ 1,209,922</u>	<u>\$ 931,272</u>

The accompanying notes are an integral part of these financial statements.

**The Johns Hopkins Hospital**  
**Statements of Cash Flows**  
**For the years ended June 30, 2011 and 2010**  
**(in thousands)**

	2011	2010
Operating activities:		
Change in net assets	\$ 278,650	\$ 94,689
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation, amortization, and accretion	73,635	70,574
Provisions for bad debts	38,243	46,139
Net realized and unrealized (gains) losses on investments	(25,905)	(10,395)
Change in market value on swap agreements	(24,207)	32,290
Change in funded status of defined benefit plans	(49,240)	40,248
Restricted contributions and investment income received	(64,882)	(65,645)
Contributions from affiliates	(31,200)	(45,720)
Changes in assets and liabilities:		
Patient receivable and due from others	(83,759)	(27,049)
Inventories of supplies, prepaid expenses and other current assets	(1,612)	1,523
Due (to) from affiliates	13,592	(25,243)
Pledges receivable	(1,783)	34,590
Other assets	5,836	(1,747)
Accounts payable, accrued liabilities and accrued vacation	15,294	2,483
Advances from third-party payors	(6,161)	15,693
Accrued pension benefit costs	8,421	1,382
Other long-term liabilities	1,795	(559)
Estimated malpractice costs	2,556	1,081
Net cash and cash equivalents provided by operating activities	<u>149,273</u>	<u>164,334</u>
Investing activities:		
Purchases of property, plant, and equipment	(216,404)	(245,356)
Purchases of investment securities	(1,379,696)	(1,069,534)
Sales of investment securities	1,265,159	926,032
Net cash and cash equivalents used in investing activities	<u>(330,941)</u>	<u>(388,858)</u>
Financing activities:		
Proceeds from restricted contributions and investment income received	64,882	65,645
Proceeds from long-term borrowing	0	150,000
Repayment of long-term debt	(13,415)	(7,645)
Contributions from affiliates	31,200	45,720
Net cash and cash equivalents provided by financing activities	<u>82,667</u>	<u>253,720</u>
(Decrease) increase in cash and cash equivalents	(99,001)	29,196
Cash and cash equivalents at beginning of year	<u>252,389</u>	<u>223,193</u>
Cash and cash equivalents at end of year	<u>\$ 153,388</u>	<u>\$ 252,389</u>
Supplemental disclosure of noncash transactions		
Construction costs incurred but not paid	<u>\$ 49,626</u>	<u>\$ 34,525</u>

The accompanying notes are an integral part of these financial statements.

# The Johns Hopkins Hospital

## Notes to Financial Statements

### For the years ended June 30, 2011 and 2010

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#### 1. Organization and Summary of Significant Accounting Policies

*Organization.* The Johns Hopkins Health System ("JHHS") is the sole member of The Johns Hopkins Hospital ("JHH"). JHHS is a not-for-profit organization incorporated in the State of Maryland to formulate policy among and provide centralized management for JHHS and its Affiliates. In addition, JHHS provides certain shared services including purchasing, legal, coordination of marketing, and other functions for which JHH is charged separately (see Note 12).

JHHS appoints JHH's Board of Trustees. JHH's Articles of Incorporation provide that JHHS' Board of Trustees will approve JHH's annual operating and capital budgets, significant programmatic changes at JHH, and other significant changes to JHH including amendments of its articles of incorporation or bylaws, mergers, or dissolutions.

JHH's mission is to provide patient care in the treatment and prevention of human illness which compares favorably with that rendered by any other institution in the United States or abroad.

*Use of Estimates.* The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Basis of Presentation.* The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Cash and Cash Equivalents.* Cash and cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. JHH has not experienced such losses on these funds.

*Inventories of Supplies.* Inventories of supplies are composed of medical supplies, drugs, linen, and parts inventory for repairs. Inventories of supplies are recorded at lower of cost or market using a first in, first out method.

*Assets Whose Use is Limited.* Assets whose use is limited or restricted by donor are recorded at fair value at the date of donation, which is then considered cost. Investment income or losses on investments of temporarily restricted assets is recorded as an increase or decrease in temporarily restricted net assets to the extent restricted by the donor or law. The cost of securities sold is based on the specific identification method.

Assets whose use is limited include assets set aside for future capital improvements, assets held by trustees under debt agreements, assets restricted by the board of trustees, and assets held for malpractice funding. These assets consist of cash and short term investments, accrued interest and pledges receivable. The carrying amounts reported in the balance sheets approximate fair value.



**The Johns Hopkins Hospital**  
**Notes to Financial Statements**  
**For the years ended June 30, 2011 and 2010**

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*Valuation of Investments.* Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Balance Sheets (see Note 4). Debt and equity securities traded on a national securities and international exchange are valued as of the last reported sales price on the last business day of the fiscal year; investments traded on the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

Investments include equity method investments in managed funds, which include hedge funds, private partnerships and other investments which do not have readily ascertainable fair values and may be subject to withdrawal restrictions. Investments in hedge funds, private partnerships, and other investments (collectively "alternative investments"), are accounted for under the equity method, which approximates fair value. The equity method income or loss from these alternative investments is included in the Statement of Operations and Changes in Net Assets as an unrealized gain or loss within excess of revenues over expenses.

Alternative investments are less liquid than JHHs' other investments. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of oversight, dependence upon key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

Investment income earned on cash balances (interest and dividends) is reported in the operating income section of the Statements of Operations and Changes in Net Assets under "Investment income". Realized gains or losses related to the sale of investments, other than temporary impairments, and unrealized gains or losses on alternative investments are included in the non-operating section of the Statement of Operations and Changes in Net Assets included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Prior to April 1, 2011, unrealized gains or losses on investments other than alternative investments are excluded from excess of revenues over expenses.

On April 1, 2011, JHH changed the classification of certain investments to a trading portfolio from available for sale. Accordingly, cumulative unrealized gains of \$12.1 million were reclassified from unrestricted net assets to non-operating income included in the realized and unrealized gains (losses) on investments within the Statement of Operations and Changes in Net Assets. This change was made as management's intent with respect to the nature of the investment portfolios has changed.

Investments in companies in which JHH does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method of accounting, and operating results flow through the investment income on the Statements of Operations and Changes in Net Assets. Dividends paid are recorded as a reduction of the carrying amount of the investment.

Investments in companies in which JHH does not have control, nor has the ability to exercise significant influence over operating and financial policies are accounted for using the cost method of accounting. Investments are originally recorded at cost, with dividends received being recorded as investment income.

**The Johns Hopkins Hospital**  
**Notes to Financial Statements**  
**For the years ended June 30, 2011 and 2010**

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*Property, Plant and Equipment.* Property, plant and equipment acquisitions are recorded at cost. Equipment is recorded as an asset if the individual cost is at least \$5 thousand and the useful life is at least three years. Renovation projects of \$5 thousand or greater are capitalized in total even though individual components are less than the capital limit. The amount capitalized for equipment, buildings, and renovation projects financed by debt would include the interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets and is capitalized as a component of the cost of acquiring those assets. Depreciation and amortization are determined by use of the straight-line method over an estimated useful life of the asset or the remaining life of the lease, whichever is shorter. Estimated useful lives assigned by JHH range from 5 to 25 years for land improvements, 3 to 40 years for buildings and improvements, 3 to 25 years for fixed and movable equipment, and 5 to 10 years for leasehold improvements. Maintenance and repair costs are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

The cost of software is capitalized provided the cost of the project is at least \$100 thousand and the expected life is at least two years. Costs include payment to vendors for the purchase of software and assistance in its installation, payroll costs of employees directly involved in the software installation, and the interest costs of the software project if financed by debt. Preliminary costs to document system requirements, vendor selection, and any costs before software purchase are expensed. Capitalization of costs will generally end when the project is completed and the software is ready to be used. Where implementation of the project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

*Impairment of Long-Lived Assets.* Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. JHH's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairment charges for the years ended June 30, 2011 and 2010.

*Financing Expenses.* Financing expenses incurred in connection with the issuance by the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") of long-term debt have been capitalized and are included in other assets. These expenses are being amortized over the term of the related bond issues using the effective interest method.

*Accrued Vacation.* JHH records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior periods.

**The Johns Hopkins Hospital**  
**Notes to Financial Statements**  
**For the years ended June 30, 2011 and 2010**

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*Estimated Malpractice Costs.* The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

*Swap Agreements.* The value of the interest rate swap agreements entered into by JHH are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. The change in market value, if any, is recorded in the Statement of Operations and Changes in Net Assets. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

*Asset Retirement Obligations.* The Financial Accounting Standards Board's ("FASB") guidance on accounting for asset retirement obligations provides for the recognition of an estimated liability for legal obligations associated with the retirement of tangible long-lived assets, including obligations that are conditional upon a future event. JHH measures asset retirement obligations at fair value when incurred and capitalizes a corresponding amount as part of the book value of the related long-lived assets. The increase in the capitalized cost is included in determining depreciation expense over the estimated useful life of these assets. Since the fair value of the asset retirement obligation is determined using a present value approach, accretion of the obligation due to the passage of time until its settlement is recognized each year as part of depreciation and amortization expense in JHH's Statements of Operations and Changes in Net Assets.

*Temporarily Restricted Net Assets.* Temporarily restricted net assets are those whose use has been limited by donors or law to a specific time period or purpose.

*Donor Restricted Gifts.* Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash to JHH greater than one year are discounted using a rate of return that a market participant would expect to receive at the date the pledge is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Operations and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions, whose restrictions are met within the same year as received, are reported as unrestricted contributions in the accompanying financial statements.

*Grants.* JHH receives various grants from individuals and agencies of Federal and State Governments for the purpose of furthering its mission of providing patient care. Grants are recognized as support and the related project costs are recorded as expenses when services related to grants are incurred. Grants receivable are included in due from others, and grant income is included in other revenue in the accompanying financial statements.

**The Johns Hopkins Hospital**  
**Notes to Financial Statements**  
**For the years ended June 30, 2011 and 2010**

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*Excess of revenues over expenses.* The Statements of Operations and Changes in Net Assets include "Excess of revenues over expenses". Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include, among other items, changes in unrealized gains and losses on investments other than trading securities, changes in funded status of defined benefit plans, cumulative effect of changes in accounting principle, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

*Income Taxes.* JHH qualifies under Section 501(c)(3) of the Internal Revenue Code and is, therefore, not subject to tax under current income tax regulations.

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. JHH has adopted this guidance, and there was no impact on its financial statements during the years ended June 30, 2011 and 2010.

**2. Net Patient Service Revenue**

JHH has agreements with third-party payors that provide for payments to JHH at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments mandated by the Health Services Cost Review Commission are also included in contractual adjustments, a portion of which are also included in established rates. Contractual adjustments to patient service revenue were \$178.3 million and \$159.8 million for the years ended June 30, 2011 and 2010, respectively.

JHH has a policy of providing care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because JHH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges for these services, measured at JHH's established rates, amounted to \$30.0 million and \$23.6 million for the years ended June 30, 2011 and 2010, respectively. Patient accounts receivable as of June 30 consisted of the following:

	2011	2010
Medicare program	16 %	20 %
Blue Cross and Blue Shield of Maryland	19 %	17 %
Health Maintenance Organizations	16 %	15 %
Commercial	14 %	12 %
Medicaid program	13 %	11 %
Medicaid Managed Care Organizations	9 %	10 %
Other self-pay and third party-payors	13 %	15 %

**The Johns Hopkins Hospital**  
**Notes to Financial Statements**  
**For the years ended June 30, 2011 and 2010**

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**3. Pledges Receivable**

As of June 30, 2011 and 2010, the total value of pledges receivable was \$26.7 million and \$26.1 million. These amounts have been discounted at rates ranging from 1.38% to 6.0% and consist of the following (in thousands):

	<b>2011</b>			
	<b>1 Year</b>	<b>2 –5 Years</b>	<b>5 Years or Greater</b>	<b>Totals</b>
Future campus development	\$ 16,153	\$ 9,263	\$ 198	\$ 25,614

  

	<b>2010</b>			
	<b>1 Year</b>	<b>2 –5 Years</b>	<b>5 Years or Greater</b>	<b>Totals</b>
Cancer center capital campaign	-	\$ 3,193	-	\$ 3,193
Future campus development	4,614	15,666	358	20,638
	<u>\$ 4,614</u>	<u>\$ 18,859</u>	<u>\$ 358</u>	<u>\$ 23,831</u>

Pledges are deemed to be fully collectable and therefore, no reserve is recorded.

**4. Fair Value Measurements**

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in excess of revenues over expenses. The fair value option may be applied on an instrument by instrument basis. Once elected, the fair value option is irrevocable for that instrument. The fair value option can be applied only to entire instruments and not to portions thereof. JHH did not elect fair value accounting for any asset or liability that was not currently required to be measured at fair value.

JHH follows the guidance on fair value measurements, which defines fair value 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, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements. Adopting this guidance did not have a material impact on JHHs' financial position and results of operations.

**The Johns Hopkins Hospital**  
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This guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring level 3 classification at June 30, 2011 or June 30, 2010.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below have been valued utilizing the market approach.

The following table presents the financial instruments carried at fair value as of June 30, 2011 grouped by hierarchy level (in thousands):

<u>Assets</u>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
Cash equivalents (1)	\$ 124,831	\$ -	\$ 124,831
U.S. treasury notes (2)	123,515	-	123,515
Corporate bonds (2)	182,775	-	182,775
Mortgage backed securities (2)	141,164	-	141,164
Equities and equity funds (3)	128,516	-	128,516
Fixed Income Funds (4)	39,507	-	39,507
Totals	<u>\$ 740,308</u>	<u>\$ -</u>	<u>\$ 740,308</u>
<u>Liabilities</u>			
Interest rate swap agreements (5)	<u>\$ 99,095</u>	<u>\$ -</u>	<u>\$ 99,095</u>

**The Johns Hopkins Hospital**  
**Notes to Financial Statements**  
**For the years ended June 30, 2011 and 2010**

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The following table presents the financial instruments carried at fair value as of June 30, 2010 grouped by hierarchy level (in thousands):

<u>Assets</u>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>
Cash equivalents (1)	\$ 131,629	\$ -	\$ 131,629
U.S. treasury notes (2)	107,309	-	107,309
Corporate bonds (2)	210,723	-	210,723
Mortgage backed securities (2)	150,259	-	150,259
Equities and equity funds (3)	-	-	-
Fixed Income Funds (4)	53,363	-	53,363
Totals	<u>\$ 653,283</u>	<u>\$ -</u>	<u>\$ 653,283</u>
 <u>Liabilities</u>			
Interest rate swap agreements (5)	<u>\$ 123,303</u>	<u>\$ -</u>	<u>\$ 123,303</u>

- (1) Cash equivalents include investments with original maturities of three months or less, including certificates of deposit and overnight investments. Certificates of deposit are carried at amortized cost, which approximates fair value. Certificates of deposit that have original maturities greater than three months and are considered short-term investments. Computed prices and frequent evaluation versus market value render the certificates of deposit level 2.
- (2) For investments in U.S. Treasuries (notes, bonds, and bills), corporate bonds, and mortgage backed securities, fair value is based upon quotes for similar securities; therefore these investments are rendered level 2. These investments fluctuate in value based upon changes in interest rates. Until April 1, 2011, significant changes in the credit quality of the underlying entity were analyzed and any other than temporary impairments was recorded upon that determination, if any.
- (3) Equities include individual equities and investments in mutual funds, commingled trusts and hedge funds. A small portion of the investments are lent out under securities lending. The ability to liquidate these funds is not limited except for the small percentage of each securities lending fund that is on loan. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (4) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. Fair value is based on quotes for similar securities; therefore these investments are rendered level 2.
- (5) The interest rate swap agreements are valued using a pricing service at net present value. These evaluated prices render these instruments level 2. The volatility in the fair value of the swap agreements change as long-term interest rates change. See footnote 9.

During 2011, there were no transfers between level 1 and 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while JHH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date. JHH holds alternative investments which are accounted for on the equity method of accounting which approximates fair value, that are not traded on national exchanges or over-the counter markets. JHH is provided a net asset value per share for these alternative investments that has been calculated in

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accordance investment company rules, which among other requirements, indicates that the underlying investments be measured at fair value. There are no unfunded commitments related to JHH's alternative investments.

The following table displays information by major alternative investment category as of June 30, 2011:

Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 55,050	Monthly	5 - 14 days	(1)
Fund of funds	29,000	Monthly, quarterly or annually	30 - 60 days	(2)
Hedge funds	3,275	Quarterly - at quarter end	60 days	(3)

(1) Within 15 days, or 95% within 1 business day of the redemption date; 5% after the 12<sup>th</sup> business day of the month

(2) Within 5 days, or 95% in 1 - 30 days, 5% within 60 days or after annual audit

(3) 95% within 30 days of redemption date; 5% within 120 days of redemption date

The following table displays information by major alternative investment category as of June 30, 2010:

Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 36,393	Monthly/manager's discretion	5 days	15 - 30 days
Fund of funds	10,241	Monthly	30 days	30 days

The estimated total fair value of long-term debt based on quoted market prices for the same or similar issues, was \$785.4 million and \$802.9 million as of June 30, 2011 and 2010, respectively.

**5. Investments and Assets Whose Use is Limited**

Investments (short and long-term) at June 30 consisted of the following (in thousands):

	2011		2010	
	Cost	Carrying Amount	Cost	Carrying Amount
U.S. treasury notes	\$ 110,024	\$ 105,722	\$ 73,276	\$ 77,711
Corporate bonds	164,787	156,643	149,904	156,456
Mortgage backed securities	128,605	123,948	109,411	115,638
Equities and equity funds	114,991	128,516	58,740	51,938
Fixed Income funds	39,699	39,507	-	-
Alternative investments	78,816	87,325	50,386	46,634
Equity/cost investments	34,572	34,572	19,962	19,962
	<u>\$ 671,494</u>	<u>\$ 676,233</u>	<u>\$ 461,679</u>	<u>\$ 468,339</u>



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Included in investments as of June 30, 2011 and 2010 are \$388.0 million and \$351.4 million, respectively, of investments pooled together with other JHH affiliates.

Assets whose use is limited as of June 30 consisted of the following (in thousands):

	2011		2010	
	Cost	Carrying Amount	Cost	Carrying Amount
Cash and cash equivalents	\$ 16,586	\$ 16,595	\$ 31,521	\$ 31,521
U.S. treasury notes	17,607	17,793	28,916	29,598
Mortgage backed securities	16,889	17,217	33,720	34,621
Corporate bonds	26,156	26,132	53,800	54,267
Equities and Equity funds	-	-	1,422	1,425
Beneficial interest remainder trust	7,457	7,457	6,275	6,275
Alternative investments	-	-	735	776
Pledges receivable	25,614	25,613	23,831	23,831
	<u>\$ 110,309</u>	<u>\$ 110,807</u>	<u>\$ 180,220</u>	<u>\$ 182,314</u>

Included in assets whose use is limited as of June 30, 2011 and 2010 are \$60.9 million and \$65.1 million, respectively, of investments pooled together with other JHH affiliates.

The following tables show the unrealized losses and fair value of JHH's investments and assets whose use is limited with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2010 (in thousands):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury notes	\$ 15,871	\$ 109	\$ -	\$ -	\$ 15,871	\$ 109
Corporate bonds	28,041	188	1,663	40	29,704	228
Mortgage backed securities	10,797	143	1,854	2	12,651	145
Alternative investments	-	-	42,764	4,212	42,764	4,212
Equities and equity funds	6,016	40	34,376	7,556	40,392	7,596
Fixed income funds	-	-	-	-	-	-
Total	<u>\$ 60,725</u>	<u>\$ 480</u>	<u>\$ 80,657</u>	<u>\$ 11,810</u>	<u>\$ 141,382</u>	<u>\$ 12,290</u>

There were 37 investment positions in an unrealized loss position as of June 30, 2010. The unrealized loss on the government obligations, corporate bonds and mortgage backed securities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. For the debt securities in an unrealized loss position, JHH does not have the intent or requirement to sell them; therefore, JHH does not consider these investments to be other-than-temporarily impaired as of June 30, 2010. The equity index funds are broad based and have fluctuated between an unrealized gain or loss position since acquisition and based on management's impairment policy, JHH does not consider these investments to be other-than-temporarily impaired as of June 30, 2010. Starting April 1, 2011, JHH discontinued its evaluation of investments for other than temporary impairment due to its change in investment portfolio classification.

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Realized and unrealized losses on investments for the years ended June 30, included in non-operating revenues and expenses section of the Statement of Operations consisted of the following (in thousands):

	2011	2010
Realized gains (losses) on investments	\$ 4,528	\$ (827)
Unrealized gains on investments	22,521	3,544
Total	<u>\$ 27,049</u>	<u>\$ 2,717</u>

Investments recorded under the cost or equity method as of June 30 consisted of the following (in thousands):

Entity	Cost/Equity	%	2011	2010
JHMI Utilities, LLC	Equity	50.0 %	\$ 3,862	\$ 3,737
MCIC Bermuda	Cost	10.0 %	29,635	15,150
MCIC Vermont	Cost	16.0 %	1,000	1,000
Other	Cost		75	75
			<u>\$ 34,572</u>	<u>\$ 19,962</u>

**6. Property, Plant and Equipment**

Property, plant and equipment and accumulated depreciation and amortization consisted of the following as of June 30 (in thousands):

	2011		2010	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and land improvements	\$ 14,421	\$ 3,884	\$ 13,387	\$ 3,521
Buildings and improvements	432,866	213,500	432,699	191,644
Fixed and moveable equipment	451,093	279,212	515,659	319,901
Construction in-progress	905,607	-	698,906	-
Capitalized software	46,562	17,764	43,297	15,041
	<u>\$ 1,850,549</u>	<u>\$ 514,360</u>	<u>\$ 1,703,948</u>	<u>\$ 530,107</u>

Accruals for purchases of property, plant and equipment as of June 30, 2011 amounted to \$49.6 million and are included in accounts payable and accrued liabilities in the Balance Sheet. Depreciation expense for the years ended June 30, 2011 and 2010 amounted to \$63.6 million and \$60.4 million, respectively. Amortization expense for the years ended June 30, 2011 and 2010 amounted to \$5.7 million and \$5.0 million, respectively.

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JHH and The Johns Hopkins University (“JHU”) share various facilities, equipment and services. The costs related to these facilities, equipment and services are generally paid for in their entirety by one institution. Under the provisions of a Joint Administrative Agreement and a lease agreement between JHH and JHU, these costs are allocated to both institutions on the basis of usage. JHU leases approximately 26.6% and 25.9% of the net square footage within JHH’s buildings at June 30, 2011 and 2010, respectively. During the year ended June 30, 2011, JHH retired long-lived assets determined to have no future value and a zero book value. The original cost and corresponding accumulated depreciation of these long-lived assets was \$85.3 million. No proceeds from retirement were received.

**7. Debt**

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

	2011		2010	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
MHHEFA bonds and notes:				
1990 Series--Revenue Bonds	\$ 9,370	\$ 54,850	\$ 9,370	\$ 59,753
2001 Series--Revenue Bonds - net of original issue discount of \$790 and \$816 as of June 30, 2011 and 2010, respectively	2,755	78,514	2,595	81,244
2004 - Commercial Paper Series A	54,625	-	1,450	54,625
2004 - Commercial Paper Series C	10,000	50,000	-	60,000
2007 - Commercial Paper Series D	-	40,000	-	40,000
2008 - Commercial Paper Series E	-	84,100	-	84,100
2008 - Commercial Paper Series F	-	84,550	-	84,550
2008 Series Revenue Bonds – including premium of \$4,806 and \$4,958 as of June 30, 2011 and 2010, respectively	48,245	101,301	-	149,697
2010 Series Revenue Bonds -- including net original issue premium of \$1,742 at June 30, 2011.	-	149,937	-	150,000
	<u>\$ 124,995</u>	<u>\$ 643,252</u>	<u>\$ 13,415</u>	<u>\$ 763,969</u>

**1990 Series - Revenue Bonds**

Portions of the Series 1990 Revenue Bonds have been advance refunded by the 1993 Series - Refunding Revenue Bonds.

The bonds outstanding consist of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds accrues from the date of delivery, is compounded semi-annually on each July 1, and January 1, and is to be paid at maturity or redemption. Serial Capital Appreciation Bonds of \$40.8 million and \$47.3 million as of June 30, 2011 and 2010, respectively, bearing interest at rates ranging from 7.25% to 7.35% per annum, are due each July 1 in the amount of \$9.4 million from 2010 to 2015. Term Capital Appreciation Bonds of \$23.4 million and \$21.8 million as of June 30, 2011 and 2010, respectively, are due July 1, 2019 and bear interest, compounded semi-annually at a rate of 7.4%. Annual sinking fund installments for the Term Capital Appreciation Bonds in the amount of \$9.4 million are due on July 1, 2016 through 2019.

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##### **2001 Series - Revenue Bonds**

The outstanding 2001 bonds consist of Serial Bonds of \$14.6 million and \$17.2 million as of June 30, 2011 and 2010, respectively bearing interest at rates ranging from 4.06% to 5.00%.

The remaining 2001 Bonds are Term Bonds amounting to \$67.5 million. These bonds pay interest semi-annually at a rate of 5.0%. Annual sinking fund installments begin May 15, 2017, ranging from \$3.1 million to \$7.0 million. The bond discount is being amortized on a straight-line basis over the term of the bonds.

##### **2004 Commercial Paper Revenue Notes – Series A**

The Series A Notes pay interest as the notes mature at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2011 and 2010 were approximately 0.31% and 0.33%, respectively.

In connection with the 2004 Commercial Paper Revenue Notes – Series A, JHH entered into a \$75.2 million line of credit agreement dated February 9, 2004 with the Bank of America, N.A. to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expires on October 31, 2011. In connection with the expiration of this line of credit, JHH plans via a competitive bid process, to refinance this commercial paper series through a direct bank placement of a tax-exempt floating rate note. Accordingly, \$53.5 million of commercial paper notes have been reclassified as short-term in the balance sheet.

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the overnight Federal funds rate plus 0.30% for the first 90 days outstanding and at a prime rate plus 2.00% thereafter. The advances are repayable on the earliest of the date that is 360 days from the date of such advance, the date of termination, the date of receipts by JHH of the proceeds of any subsequent issuances of notes and the final date. No amounts were outstanding as of June 30, 2011 or 2010.

##### **2004 Commercial Paper Revenue Notes – Series C**

The Series C Notes pay interest as the notes mature at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2011 and 2010 were approximately 0.46% and 0.66%, respectively.

In connection with the 2004 Commercial Paper Revenue Series C, JHH entered into a \$60.0 million line of credit agreement dated March 1, 2004 with Suntrust Bank to provide for payment of such commercial paper at maturity subject to certain conditions described therein. This agreement expires on November 1, 2012 subject to extension or earlier termination.

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the higher of the prime rate and the Federal funds rate plus 0.50% for the first 60 days outstanding and the higher of these two rates plus 2.00% thereafter. The advances are repayable on the earliest date that is 360 days from the date of such advance, the date of termination, the date of receipts by JHH of proceeds of any subsequent issuances of notes or the final date. No amounts were outstanding as of June 30, 2011 or 2010. Since this liquidity facility must be repaid within 360 days, \$10.0 million of commercial paper notes that were scheduled for remarketing during the period July 1 through July 6, 2011 have been reclassified as short-term in the June 30, 2011 balance sheet. This commercial paper was successfully remarketed subsequent to June 30, 2011. There were no commercial paper notes that were required to be reclassified as short-term in the June 30, 2010 balance sheet.

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On July 1, 2008, JHH made \$15.0 million of aggregate principal payments on the notes. In connection with the payment of these maturities, JHH issued an additional \$15.0 million of commercial paper notes to replace the matured notes. The additional notes are subject to the same terms and conditions as the original notes except for the inclusion of the additional maturities.

#### **2007 Commercial Paper Revenue Notes – Series D**

The Series D Notes pay interest monthly at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2011 and 2010 were approximately 0.43% and 0.66%.

In connection with the 2007 Commercial Paper Revenue Series D, JHH entered into a \$40.0 million line of credit agreement dated November 1, 2007 with Suntrust Bank to provide for payment of such commercial paper at maturity subject to certain conditions described therein. This agreement expires on November 1, 2012 subject to extension or earlier termination.

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the higher of the prime rate and the Federal funds rate plus 0.50% for the first 60 days outstanding and the higher of these two rates plus 2.00% thereafter. The advances are repayable on the earliest date that is 360 days from the date of such advance, the date of termination, the date of receipts by JHH of proceeds of any subsequent issuances of notes or the final date. No amounts were outstanding as of June 30, 2011. There were no commercial paper notes that were required to be reclassified as short-term in the June 30, 2011 or 2010 balance sheets.

#### **2008 Commercial Paper Revenue Notes - Series E and Series F**

In April 2008 JHH issued \$84.1 million and \$84.6 million 2008 Commercial Paper Revenue Notes Series E and Series F, respectively. Notes are due May 15, 2038 and pay interest as they mature at a variable rate based on the commercial paper sold by a designated remarketing agent for terms ranging from 1 to 270 days. The interest rates for the years ended June 30, 2011 and 2010 were approximately 0.28% and 0.32% for the Series E notes and 0.29% and 0.33% for the Series F notes, respectively.

In connection with the 2008 Commercial Paper Revenue Notes Series E and Series F, JHH entered into a \$170.5 million letter of credit agreement dated April 1, 2008 with Bank of America, N.A. equal to the principal amount of the Notes plus thirty-four days of interest at the maximum rate of 12.0%. This agreement was extended on June 30, 2010 to expire on June 30, 2015.

Amounts advanced under the line of credit agreements bear interest at the prime rate for the first 90 days outstanding and the prime rate plus 1.00% thereafter. The advances are repayable on the earliest date that is 366 days from the date of the advance or the date of receipt by JHH of proceeds of subsequent issuances of notes in excess of the principal of notes maturing or the expiration date. No amounts were outstanding as of June 30, 2011.

#### **2008 Series Revenue Bonds**

In June 2008 JHH issued \$144.7 million of Revenue Bonds to finance construction of two new clinical care buildings. The bonds are term bonds that were sold in three tranches of approximately \$48.2 million each that have final maturities in 2042, 2046 and 2048. The payment terms require sinking fund deposits in 2036 through 2048 in amounts ranging from \$2.3 million to \$20.2 million. The interest rates on the bonds are based on initial term rate periods of three, five and seven years and currently range between 3.65% and 5.0%. Interest is payable semi-annually. At the end of the initial term rate periods the bonds are subject to mandatory purchase by JHH. The first tranche of term bonds are required to be purchased by JHH on

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November 14, 2011. Accordingly, \$48.2 million of debt has been reclassified to current in the balance sheet. JHH has the option at the end of each term period to change the length of the term periods or extend the fixed rate period to the final maturity of the bonds. JHH also has the right to retire the bonds at par value at the end of each term period. JHH plans to refinance the first tranche of term bonds through a tax-exempt floating rate note issuance. The bonds were sold at a premium of \$5.3 million which is being accounted for using the bond outstanding method.

#### **2010 Series Revenue Bonds**

In June 2010 JHH issued \$148.2 million of Revenue Bonds to further finance construction of the two new clinical buildings. \$29.8 million of the bonds are serial bonds that mature in 2031 through 2035 and pay interest semi-annually at rates ranging from 4.38% to 4.63%. The remaining 2010 Bonds are Term Bonds amounting to \$118.4 million paying interest semi-annually at a rate of 5.0% and maturing in 2040. The payment terms for the Term Bonds require sinking fund deposits in 2036 through 2040 in amounts ranging from \$21.0 million to \$26.3 million. The Serial Bonds were sold at a discount of \$.5 million and the Term Bonds were sold at a premium of \$2.3 million both of which are being accounted for using the bond outstanding method.

#### **Derivative Financial Instruments**

JHH's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was \$523.3 million and \$524.7 million as of June 30, 2011 and 2010, respectively.

JHH follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. All of JHH's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

The value of interest rate swap agreements entered into by JHH are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. JHH does not hold derivative instruments for the purpose of managing credit risk and limits the amount of credit exposure to any one counterparty and enters into derivative transactions with high quality counterparties. JHH recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within the performance indicator excess of revenues over expenses on the Statement of Operations.

Each swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by JHHS with the swap counterparty for the difference between the threshold amount and the market value. At June 30, 2011 and 2010, the amount of required collateral was \$54.4 million and \$65.3 million, respectively. JHH has funded the collateral payments to JHHS. JHHS makes the deposits to the counterparty. JHH has included the collateral funding in the balance of due from affiliates, net of current portion in the balance sheet.

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Fair value of derivative instruments as of June 30 (in thousands):

		<b>Derivatives Reported as Liabilities</b>			
		<b>2011</b>		<b>2010</b>	
	<b>Balance Sheet</b>	<b>Fair</b>	<b>Balance Sheet</b>	<b>Fair</b>	
	<b>Caption</b>	<b>Value</b>	<b>Caption</b>	<b>Value</b>	
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	\$ (99,095)	Other long-term liabilities	\$ (123,302)	

Derivatives not designated as hedging instruments as of June 30 (in thousands):

Classification of Derivative Loss in Statement of Operations	<b>Amount of Loss Recognized in Change in Unrestricted Net Assets</b>	
	<b>2011</b>	<b>2010</b>
Interest rate swaps: Loss on market value of swap agreements	\$ 24,207	\$ 32,290

The following is a description of JHH's interest rate swap agreements:

In January 2004 in connection with the issuance of the 2004 Commercial Paper Revenue Notes Series A, JHH entered into a fixed payor interest swap agreement with J.P. Morgan. The notional amount on this swap agreement is \$54.6 million and \$56.1 million as of June 30, 2011 and 2010, respectively. JHH pays J.P. Morgan a fixed annual rate of 3.329% on the outstanding loan value of the 2004 Series A Notes in return for the receipt of a floating rate of interest equal to 67% of the one Month LIBOR rate. The floating rate payments from this interest rate swap agreement are intended to substantially offset the floating rate of the Series A Notes. The change in market value of this swap agreement is recorded in JHH's Statements of Operations and Changes in Net Assets. The floating rates as of June 30, 2011 and 2010 were 0.13% and 0.23%, respectively.

In April 2006, JHH entered into two forward start fixed payor swap agreements with Goldman Sachs Capital Markets, L.P. ("GSCM"). The notional amount on these swap agreements is \$150 million each. Payments under the first of these swap agreements began May 1, 2007 and payments under the second agreement began May 1, 2008. These agreements carry a term of 32 years. JHH pays GSCM a fixed annual rate of 3.911% on the notional value of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Under the second swap agreement JHH pays GSCM a fixed annual rate of 3.922% on the \$150.0 million notional value in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2011 and 2010 were 0.13% and 0.23%, respectively.

In July 2007, JHH entered into two additional fixed payor interest rate swap agreements. One with GSCM in a notional amount of \$84.1 million and another with Merrill Lynch Capital Services ("MLCS") in a notional amount of \$84.6 million. JHH will pay GSCM a fixed annual rate of 3.819% and will pay MLCS a fixed annual rate of 3.8091% on the outstanding loan values in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. The floating rate payment from these interest rate swap agreements are intended to substantially offset the floating rate of the 2008 Commercial Paper Notes Series E and Series F. The floating rates as of June 30, 2011 and 2010 were 0.13% and 0.23%, respectively.

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**Obligated Group**

The Johns Hopkins Health System's Obligated Group ("JHHS Obligated Group") consists of JHH, Johns Hopkins Bayview Medical Center, Inc., ("JHBMC"), Suburban Hospital Healthcare System, Inc. ("SHHS") and Suburban Hospital, Inc. ("SHI"). JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a plan of debt refinancing. SHHS and SHI were admitted into the JHHS Obligated Group in 2010 as part of the JHH 2010 Series Revenue Bonds issuance. All JHH debt, the 2004 JHBMC Commercial Paper Series B, JHBMC 2008 Variable Rate Demand Bonds Series A, JHBMC Pooled Loan Program Issue Series 1985A and 1985B debt, the SHI 2004 Series A and B Revenue Bonds and SHI 2008 Series Revenue Bonds are parity debt, and as such are collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, SHI's and SHHS' receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, SHI and SHHS are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2011 and 2010 JHH, JHBMC, SHI and SHHS are in compliance with these requirements. As of June 30, 2011 and 2010 the outstanding JHBMC, SHI and SHHS parity debt was \$177.8 million and \$185.8 million, respectively. In addition the obligated group has agreed to guarantee the \$40.0 million principal amount of the Howard County General Hospital ("HCGH") Series 2008 debt.

In 1998 JHH and JHU each agreed to guarantee 4.5% of the HCGH Series 1998 Revenue Bonds. The total outstanding principal of the debt at June 30, 2011 and 2010 was \$113.7 million and \$116.2 million, respectively.

Total maturities of debt and sinking fund requirements during the next five fiscal years and thereafter are as follows as of June 30, 2011 (in thousands):

2012	\$	124,995
2013		61,150
2014		22,115
2015		72,525
2016		22,135
Thereafter		459,569
	<u>\$</u>	<u>762,489</u>

Interest costs incurred, paid and capitalized in the years ended June 30 are as follows (in thousands):

	2011	2010
Net interest costs:		
Capitalized	\$ 16,507	\$ 8,281
Charged to operations	28,939	29,934
	<u>\$ 45,446</u>	<u>\$ 38,215</u>
Interest costs paid	<u>\$ 39,172</u>	<u>\$ 32,156</u>



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**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes as of June 30 (in thousands):

	2011	2010
Purchase of property, plant and equipment	\$ 459,845	\$ 396,939
Patient care	1,164	1,074
Education and counseling	519	491
	<u>\$ 461,528</u>	<u>\$ 398,504</u>

**9. Pension Plans**

JHH has two defined benefit pension plans (the "Plans") covering substantially all of its employees. The plan for employees not represented by a collective bargaining unit is part of a multi-employer plan. Employees represented by Local 1999-E are covered by a noncontributory pension plan which provides for retirement income benefits based on years of service and compensation.

Employees not represented by a collective bargaining agreement are covered by a contributory pension plan which provides for retirement income based on years of service, the level of contributions and the employees' compensation. Effective July 1, 1992, the option for an employee to contribute to the pension plan was discontinued. The funding policy for both plans is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. The assets of both plans as of June 30, 2011 and 2010 consisted of cash and cash equivalents, listed stocks, corporate bonds, government securities and alternative investments. All assets are managed by external investment managers, consistent with the plan's investment policy.

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The change in benefit obligation, plan assets, and funded status of the pension plans are shown below (in thousands):

	<b>2011</b>	<b>2010</b>
<u>Change in benefit obligation</u>		
Benefit obligation as of beginning of year	\$ 614,623	\$ 509,765
Service cost	22,525	20,944
Interest cost	36,562	35,706
Actuarial loss	13,171	63,271
Benefits paid	<u>(17,387)</u>	<u>(15,063)</u>
Benefit obligation as of June 30	<u>\$ 669,494</u>	<u>\$ 614,623</u>
<u>Change in plan assets</u>		
Fair value of plan assets as of beginning of year	\$ 442,412	\$ 379,027
Actual return on plan assets	79,839	54,217
Employer contribution	33,238	24,231
Benefits paid	<u>(17,387)</u>	<u>(15,063)</u>
Fair value of plan assets as of June 30	<u>\$ 538,102</u>	<u>\$ 442,412</u>
<u>Funded Status as of June 30,</u>		
Fair value of plan assets	\$ 538,102	\$ 442,412
Projected benefit obligation	<u>(669,494)</u>	<u>(614,623)</u>
Funded status	<u>\$ (131,392)</u>	<u>\$ (172,211)</u>

Amounts recognized in the Balance Sheets consist of (in thousands):

	<b>2011</b>	<b>2010</b>
Net pension asset	\$ 1,878	\$ -
Net pension liability	(133,270)	(172,211)
Net amount recognized	<u>\$ (131,392)</u>	<u>\$ (172,211)</u>

Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets consist of (in thousands):

	<b>2011</b>	<b>2010</b>
Actuarial net loss	\$ 253,622	\$ 301,600
Prior service cost	3,308	4,569
	<u>\$ 256,930</u>	<u>\$ 306,169</u>
Accumulated benefit obligation	<u>\$ 579,016</u>	<u>\$ 529,740</u>

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**Net Periodic Cost**

Components of net periodic pension cost (in thousands):

	<b>2011</b>	<b>2010</b>
Service cost	\$ 22,525	\$ 20,944
Interest cost	36,562	35,706
Expected return on plan assets	(41,261)	(42,764)
Amortization of prior service cost	1,261	1,261
Recognized net actuarial loss	<u>22,572</u>	<u>10,336</u>
Net periodic pension benefit cost	<u>\$ 41,659</u>	<u>\$ 25,483</u>

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit costs in 2012 are \$25.5 million and \$1.3 million, respectively.

The assumptions used in determining the net periodic pension cost for the plans are as follows for the years ended June 30:

	<b>2011</b>	<b>2010</b>
Discount rate	6.04%	7.10 %
Expected return on plan assets	8.25%	8.25 %
Rate of compensation increase	2.00% - 3.00%	3.00% - 4.00%

The assumptions used in determining the projected pension obligations for the plans are as follows as of July 1:

	<b>2011</b>	<b>2010</b>
Discount rate	6.03 %	6.04 %
Expected return on plan assets	8.25 %	8.25 %
Rate of compensation increase	2.50% - 3.00%	2.00 % - 3.00 %

The rate of compensation increase was 2.00% for fiscal 2012, 2.50% for fiscal year 2013 and 3.00% thereafter. The expected rate of return on plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions.

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**Plan Assets**

JHH's pension plan weighted average asset allocations as of June 30, 2011 and 2010 by asset category are as follows:

	2011	2010
<u>Asset Category</u>		
Cash equivalents	4.5%	5.0 %
Equity funds	35.8%	34.5 %
Fixed income funds	15.6%	19.1 %
Alternative investments	44.1%	41.4 %
Total	100.0%	100.0 %

The Plans assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JHH's risk tolerance. This is achieved through the utilization of asset managers and systematic allocation to investment management style(s), providing a broad exposure to different segments of the fixed income and equity markets. The Plans strive to allocate assets between equity securities (including global asset allocation strategies) and debt securities at a target rate of approximately 75% and 25%, respectively.

**Fair Value of Plan Assets**

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participant at the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring Level 3 classification at June 30, 2011 and 2010.

The following table presents the plan assets carried at fair value as of June 30, 2011 and 2010 grouped by hierarchy level:

As of June 30, 2011:

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	\$ 23,943	\$ -	\$ 23,943
Equity funds (2)	192,793	-	192,793
Fixed income funds (3)	83,991	77,148	6,843
Alternative investments (4)	237,375	-	237,375
Totals	\$ 538,102	\$ 77,148	\$ 460,954

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As of June 30, 2010:

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	\$ 22,133	\$ -	\$ 22,133
Equity funds (2)	152,451	20,914	131,537
Fixed income funds (3)	84,596	78,172	6,424
Alternative investments (4)	183,232	-	183,232
Totals	<u>\$ 442,412</u>	<u>\$ 99,086</u>	<u>\$ 343,326</u>

- (1) Cash equivalents include investments with original maturities of three months or less and overnight investments. Computed prices and frequent evaluation versus market value render the other investments level 2.
- (2) Equities include individual equities. Equity funds include investments in mutual funds, commingled trusts and hedge funds. A small portion of the investments are lent out under securities lending. The ability to liquidate these funds is not limited except for the small percentage of each securities lending fund that is on loan. The individual equities and mutual funds are rendered level 1. The commingled trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (3) Fixed income funds are investments in mutual funds and commingled trusts investing in fixed income instruments. The underlying fixed investments are principally U.S. Treasuries, corporate bonds, commercial paper, and mortgage backed securities. The mutual funds are rendered level 1. The commingled trusts are valued regularly within each month utilizing NAV per unit and are rendered level 2.
- (4) Alternative investments include investments that are not traded on national exchanges or over-the-counter markets. These investments are valued at using a net asset value per share that has been calculated in accordance with investment company rules, which among other things, indicates that the underlying investments be measured at fair value. This valuation technique renders these investments level 2.

The following table displays information by major alternative investment category as of June 30, 2011:

Description	Fair Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 103,931	Monthly	5 days	(1)
Fund of funds	74,126	Monthly, quarterly or annually	30 to 65 days	(2)
Hedge funds	27,695	Monthly or quarterly	30 to 65 days	(3)
Credit funds	21,327	Annual	60 to 90 days	(4)
Distressed credit	10,296	December 31, 2013		

- (1) Within 15 days, or 95% on redemption date, 5% on third business day
- (2) Within 5 days, or 90% within 30 to 60 days, 10% after annual audit
- (3) 90% - 95% within 30 days, 5% - 10% after 10 days, 10% after annual audit
- (4) Within 30 days, or 90% within 10 days, 10% after annual audit

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The following table displays information by major alternative investment category as of June 30, 2010:

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	\$ 70,184	Monthly	5 days	15 days
Fund of funds	68,242	Monthly or quarterly	30 to 65 days	(1)
Hedge funds	9,360	Quarterly	30 days	(2)
Credit funds	19,582	Annual	30 to 90 days	(3)
Distressed credit	15,864	December 31, 2013		

(1) Within 5 days, or 90% within 30 to 60 days, 10% after annual audit

(2) 95% within 30 days, 5% after annual audit

(3) Within 30 days, or 90% within 10 days, 10% after annual audit

**Contributions and Estimated Future Benefit Payments (Unaudited)**

JHH expects to contribute \$71.4 million to its pension plan in the fiscal year ending June 30, 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in each of the following fiscal years as of June 30, 2011 (in thousands):

2012	\$	20,888
2013		23,451
2014		26,410
2015		29,489
2016		32,551
2017 -- 2019		214,111

**10. Maryland Health Services Cost Review Commission (“Commission” or “HSCRC”)**

JHH’s charges are subject to review and approval by the Commission. JHH management has filed the required forms with the Commission and believes JHH to be in compliance with Commission requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the Commission. Management believes that this program will remain in effect at least through June 30, 2012.

Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges and JHH elected to be paid under the new methodology. The methodology established a charge per admission cap for each hospital. The hospital specific charge per admission is adjusted annually to reflect cost inflation and is also adjusted for changes in the hospital’s case mix index. Certain highly tertiary inpatient cases such as solid organ transplants, bone marrow transplants and certain oncology cases are treated as exclusions from the charge per case methodology. Effective July 1, 2008, the Commission developed a new methodology to establish a charge per visit (CPV) for certain types of outpatient services. The hospital specific charge per visit is adjusted annually to reflect cost inflation and is also adjusted for changes in case mix. Certain types of visits such as radiation therapy, psychiatric day hospital and certain types of recurring visits will be treated as exclusions under this methodology.

## **The Johns Hopkins Hospital**

### **Notes to Financial Statements**

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In addition to the HSCRC annual rate update, JHH's management successfully negotiated a prospective rate setting agreement effective July 1, 2004 to provide annual rate increases through fiscal year 2010 for capital costs related to the planned east Baltimore campus redevelopment project. This capital cost rate increase is budgeted to raise JHH's annual approved rate base by approximately \$39.3 million by fiscal year 2012 when the new hospital facilities are projected to open. JHH received a certificate of need (CON) from the Maryland Health Care Commission. In order to provide capital funding in rates for this capital project, CON approval is a condition required by the HSCRC.

The Commission approves hospital rates on a departmental unit rate basis. Individual unit rates are the basis for hospital reimbursement for inpatient excluded cases and for hospital outpatient excluded services. Under the Commission rate methodology, amounts collected for services to patients under Medicare and Medicaid are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount based on prompt payment of claims.

#### **11. Professional and General Liability Insurance**

JHU, JHHS and its affiliates participate in an agreement with four other medical institutions to provide a program of professional and general liability insurance for each member institution. As part of this program, the participating medical institutions have formed a risk retention group ("RRG") and a captive insurance company to provide self-insurance for a portion of their risk.

JHH and JHU each have a 10% ownership interest in the RRG and the captive insurance company. This ownership interest is included in investments on the Balance Sheets. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions are \$5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted at 1.2% and 2.00% for June 30, 2011 and 2010, respectively.

Professional and general liability insurance expense incurred by JHH was \$23.7 million and \$24.3 million for the years ended June 30, 2011 and 2010, respectively, and are included in purchased services expense in JHH's Statements of Changes in Net Assets. Professional and general liability insurance reserves recorded in JHH's balance sheets at June 30, 2011 and 2010 were \$41.2 million and \$38.6 million, respectively.

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**12. Transactions with Related Parties**

During the years ended June 30, 2011 and 2010, JHH engaged in transactions with JHHS and its affiliates, all related parties: Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), Johns Hopkins Medical Services Corporation ("JHMSC"), Johns Hopkins Community Physicians ("JHCP"), Johns Hopkins Medical Management Corp. ("JHMMC"), Johns Hopkins Employer Health Programs, Inc. ("EHP"), Johns Hopkins HealthCare, LLC ("JHHC"), Johns Hopkins Home Care Group, Inc ("JHHCG"), Central Maryland Heart Center, Dome Corporation, Howard County General Hospital ("HCGH"), Priority Partners Managed Care Organization, Inc. ("Priority Partners"), JHMI Utilities, LLC, and Suburban Hospital Healthcare System ("SHHS"). The following is a summary of related party transactions and balances:

	2011	2010
<u>Revenue/(expense) transactions (in thousands):</u>		
Purchasing, legal, advertising and other services provided by JHHS	\$ (83,124)	\$ (76,220)
Cost recoveries for laboratory and various services provided to JHBMC	14,153	13,203
Cost recoveries for laboratory services provided to HCGH	7,449	7,089
Cost recoveries for laboratory and various support services provided to JHCP	275	380
Contribution to JHCP for services provided by JHCP to uninsured patients	(2,712)	(2,688)
Temporary staffing services provided by JHMMC	(14,746)	(13,638)
Premiums paid to EHP for administration of health care claims	(5,215)	(4,958)
Net patient services revenue for services to patients referred by JHHC and various support services provided to JHHC	38,663	36,219
Cost recoveries for fringe benefit and various support services from JHHCG	13,807	12,642
Net patient service revenue for services to patients referred from Priority Partners	111,813	101,300
Utility and telecommunication services provided by JHMI Utilities, LLC	(25,204)	(24,100)



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	2011	2010
<u>Due (to)/from related party balances as of June 30 (in thousands):</u>		
Due from JHHS for services provided and funding for strategic initiatives and swap collateral	\$ 49,376	\$ 62,241
Due from JHBMC for laboratory and various support services	1,267	673
Due from JHMSC for notes receivable	614	920
Due to JHCP for support services	(99)	(157)
Due to JHHCG for fringe benefits and patient receivables from operation of discharge pharmacies	(1,167)	(1,416)
Due to JHHC for services to patients	169	(545)
Due from (to) JHMI Utilities LLC for utility and network service and capital costs	(407)	1,432
Due from HCGH for support services	267	600
Due from SHHS for support services	39	43
Other	(1,324)	(1,464)
Total	<u>\$ 48,735</u>	<u>\$ 62,327</u>

Included in the amounts due from affiliates in the accompanying Balance Sheets as of June 30, 2011 and 2010 are \$.6 million and \$0.9 million, respectively, in a note receivable from JHMSC. The note receivable bears no interest with annual payments from JHMSC of \$307 thousand.

Broadway Services, Inc. ("BSI"), a related organization, is a wholly-owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and JHU. BSI provides JHH with various services including security, housekeeping, escort and transportation. During 2011 and 2010, JHH incurred costs of approximately \$10.3 million and \$10.1 million, respectively, for these services.

**13. Contracts, Commitments and Contingencies**

JHH has agreements with JHU, under which JHU provides medical administration and educational services, patient care medical services, and certain other administrative and technical support services through the physicians and interns employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration, educational services and other support services is paid to JHU by JHH; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by JHU. The aggregate amount of purchased services incurred by JHH under these agreements was \$197.4 million and \$190.4 million for the years ended June 30, 2011 and 2010, respectively.

In order to upgrade their management information systems and to purchase medical equipment, JHH authorized MHHEFA to issue \$80.0 million in revenue bonds. MHHEFA uses the bond proceeds to purchase the management information systems and medical equipment for JHH. JHH has entered into a master lease pursuant to which MHHEFA leases each item to JHH in accordance with a schedule in the master lease. On each schedule, JHH makes lease payments sufficient to pay the debt service of the bonds. The leases are short-term in duration, in the range of 5 to 7 years, due to the nature of the systems being financed. Upon expiration of each schedule, JHH has the option to extend the lease, purchase the project or return the project to

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MHHEFA. These leases meet the criteria of operating leases, and are therefore charged to operations as incurred. As of June 30, 2011 and 2010 current principal on outstanding leases was \$.3 million and \$1.3 million, respectively.

JHH had non-cancellable commitments under construction contracts of \$238.2 million and \$268.3 million at June 30, 2011 and 2010, respectively, relating primarily to its campus redevelopment project which includes the construction of a new Cardiovascular and Critical Care Adult Tower and a Children's Hospital.

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with rentals charged to operations as incurred.

The following is a schedule by year of future minimum lease payments under all operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year (in thousands).

2012	\$	2,835
2013		2,492
2014		1,959
2015		1,867
2016		1,927

Rental expense for all operating leases for the years ended June 30, 2011 and 2010 amounted to \$14.0 million and \$13.7 million, respectively.

In 2005, JHH and JHU created a Limited Liability Company (JHMI Utilities, LLC) to provide utility and telecommunication services for their East Baltimore Campus. Each member owns 50% of the LLC and shares equally in the governance of the LLC. The existing JHH utility assets have been transferred at cost to the LLC. The LLC has also assumed the liability for the JHH's 1985 Pooled Loan obligation of \$8.4 million. The cost of acquiring and upgrading the existing utility facilities, the construction of a new power plant and an upgrade of the telecommunication system have been financed through the issuance of tax exempt bonds by MHHEFA and the proceeds of the Pooled Loan program sponsored by MHHEFA. JHH and JHU have guaranteed the total debt issued by MHHEFA. At June 30, 2011 the amount of debt guarantees by JHH was \$49.7 million. JHH records its investment in JHMI Utility LLC under the equity method of accounting.

During the year ended June 30, 2006, JHH recorded asset retirement obligations associated with the abatement of asbestos in several buildings that were constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2011 and 2010 was \$17.7 million and \$17.3 million, respectively.

The change in the asset retirement obligation for the year ended June 30, 2011 consisted of the following (in thousands):

Retirement obligation at beginning of year	\$	17,308
Liabilities settled		(129)
Accretion expense		564
Retirement obligation at end of year	\$	<u>17,743</u>

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JHH has pledged investments having an aggregate market value of \$23.7 million as of June 30, 2011 for JHHS compliance with regulations of the Workers Compensation Commission and the Department of Economic and Employment Development's Unemployment Insurance Fund. These investments are included in assets whose use is limited by board of trustees in the Balance Sheet.

**14. Functional Expenses**

The Hospital provides general health care services to residents within its geographic location as well as to national and international patients. Expenses related to providing these services for the years ended June 30 consisted of the following (in thousands):

	<b>2011</b>	<b>2010</b>
Health care services	\$ 1,412,985	\$ 1,363,557
General and administrative services	<u>216,536</u>	<u>214,542</u>
Total expenses	<u>\$ 1,629,521</u>	<u>\$ 1,578,099</u>

**15. The Johns Hopkins Hospital Endowment Fund, Incorporated**

The Endowment Corporation was organized for the purpose of holding and managing the endowment and certain other funds transferred from and for the benefit of JHHS and affiliates. The affairs of the Endowment Corporation are managed by a Board of Trustees, comprised of Trustees who are self-perpetuating. Neither JHHS nor any affiliate holds legal title to any Endowment Corporation funds. The Endowment Corporation's distributions from net assets to JHH were \$8.8 million and \$7.1 million in the years ended June 30, 2011 and 2010, respectively, and were recorded as other revenue. The Board of Trustees may, at its own discretion, award funds from the Endowment Corporation to organizations other than JHHS or its affiliates if the Board of Trustees determines that doing so is for support, benefit, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the financial statement of JHH until they are subsequently distributed to JHH from the Endowment Corporation. The Endowment Corporation's net assets were \$553.2 million and \$466.1 million as of June 30, 2011 and 2010, respectively.

**16. Subsequent Events**

Subsequent events have been evaluated by Management through September 28, 2011, which is the date the financial statements were issued.