THE JOHNS HOPKINS HEALTH SYSTEM CORPORATION AND AFFILIATES

Combined Financial Statements
June 30, 2010 and 2009

The Johns Hopkins Health System Corporation and Affiliates
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June 30, 2010 and 2009

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
The Johns Hopkins Health System Corporation and Affiliates:

In our opinion, the accompanying combined balance sheets and the related combined statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of The Johns Hopkins Health System Corporation and Affiliates ("JHHS") at June 30, 2010 and 2009, and the results of their operations and their 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 JHHS' 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.

PricewaterhouseCoopers LLP

September 29, 2010

The Johns Hopkins Health System Corporation and Affiliates
Combined Balance Sheets
June 30, 2010 and 2009
(in thousands)

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	$ 401,197	$ 390,823
Short-term investments	129,597	60,988
Assets whose use is limited - used for current liabilities	21,234	10,330
Patient accounts receivables, net of estimated uncollectibles of $94,410 and $96,785 as of June 30, 2010 and 2009, respectively	242,884	261,595
Due from others - current portion	48,221	40,145
Due from affiliates	7,011	7,272
Inventories of supplies	58,084	58,566
Prepaid expenses and other current assets	26,374	20,380
Total current assets	934,602	850,099
Assets whose use is limited		
By long-term debt agreement for:		
Debt service reserve funds	-	3,431
By donors or grantors for:		
Future campus development	74,969	167,412
Pledges receivable	25,832	63,479
Other	29,920	10,271
By Board of Trustees	212,900	226,153
Malpractice funding arrangement	7,866	7,992
Interest in net assets of Howard Hospital Foundation	13,898	13,214
Other	14,721	16,855
Total assets whose use is limited	380,106	508,807
Investments	518,033	302,898
Property, plant and equipment	2,883,955	2,774,445
Less: allowance for depreciation and amortization	(1,101,455)	(1,160,972)
Total property, plant and equipment, net	1,782,500	1,613,473
Due from affiliates, net of current portion	2,413	2,742
Due from others, net of current portion	7,575	8,616
Net pension asset	-	3,076
Other assets	84,102	63,563
Total assets	$ 3,709,331	$ 3,353,274

See notes to the combined financial statements.

The Johns Hopkins Health System Corporation and Affiliates
Combined Balance Sheets, continued
June 30, 2010 and 2009
(in thousands)

LIABILITIES AND NET ASSETS	2010	2009
Current liabilities:		
Current portion of long-term debt and obligations under capital leases	$ 26,415	$ 153,547
Short-term line of credit	-	9,895
Accounts payable and accrued liabilities	338,107	337,686
Medical claims reserve	67,881	47,418
Deferred revenue	55,479	41,873
Due to affiliates	5,121	5,348
Accrued vacation	41,146	38,491
Advances from third-party payors	102,864	86,407
Current portion of estimated malpractice costs	4,058	4,146
Total current liabilities	641,071	724,811
Long-term debt and obligations under capital leases, net of current portion	1,136,783	873,213
Estimated malpractice costs, net of current portion	51,985	51,189
Net pension liability	343,262	264,169
Other long-term liabilities	186,832	146,352
Total liabilities	2,359,933	2,059,734
Noncontrolling interests	18,439	20,498
Net assets:		
Unrestricted	885,241	769,659
Temporarily restricted	428,441	486,107
Permanently restricted	17,277	17,276
Total net assets	1,330,959	1,273,042
Total liabilities and net assets	$ 3,709,331	$ 3,353,274

See notes to the combined financial statements.

The Johns Hopkins Health System Corporation and Affiliates
Combined Statements of Operations and Changes in Net Assets
for the years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Operating revenues:		
Net patient service revenue	$ 3,219,477	$ 3,039,104
Other revenue	263,096	254,854
Investment income	31,314	23,092
Net assets released from restrictions used for operations	2,975	2,924
Total operating revenues	3,516,862	3,319,974
Operating expenses:		
Salaries, wages and benefits	1,367,601	1,293,177
Purchased services	1,227,390	1,107,441
Supplies and other	535,936	514,247
Interest	22,146	23,077
Provision for bad debts	94,032	122,480
Depreciation and amortization	131,320	115,860
Total operating expenses	3,378,425	3,176,282
Income from operations	138,437	143,692
Non-operating revenues and expenses:		
Interest expense on swap agreements	(24,824)	(19,781)
Change in market value of swap agreements	(39,549)	(57,997)
Realized and unrealized gains (losses) on investments	5,029	(24,267)
Noncontrolling interests	(4,614)	(2,788)
Loss on impairment of long-lived assets	(4,493)	-
Excess of revenues over expenses	69,986	38,859
Contributions to affiliates	(1,062)	(1,268)
Contribution of land	-	3,150
Changes in unrealized gains (losses) on investments	24,378	(34,816)
Change in funded status of defined benefit plans	(70,505)	(211,024)
Net assets released from restrictions used for purchases of property, plant, and equipment	92,785	14,185
Increase (decrease) in unrestricted net assets	115,582	(190,914)
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	37,406	52,252
Net change in Howard Hospital Foundation	688	(236)
Net assets released from restrictions used for purchases of property, plant, and equipment	(92,785)	(14,185)
Net assets released from restrictions used for operations	(2,975)	(2,924)
(Decrease) increase in temporarily restricted net assets	(57,666)	34,907
Changes in permanently restricted net assets:		
Gifts, grants and bequests	1	32
Increase in permanently restricted net assets	1	32
Increase (decrease) in net assets	57,917	(155,975)
Net assets at beginning of year	1,273,042	1,429,017
Net assets at end of year	$ 1,330,959	$ 1,273,042

See notes to the combined financial statements.

The Johns Hopkins Health System Corporation and Affiliates
Combined Statements of Cash Flows
for the years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Operating activities:		
Change in net assets	$ 57,917	$ (155,975)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	136,462	120,170
Provision for bad debts	94,032	122,480
Net realized and changes in unrealized (gains) losses on investments	(23,103)	61,490
Change in market value of swap agreements	39,549	57,997
Change in funded status of defined benefit plans	70,505	211,024
Unrestricted contribution of land	-	(3,150)
Loss on impairment of long-lived assets	4,493	-
Restricted contributions and investment income received	(69,300)	(61,333)
Gains on and returns of equity investments	(18,671)	(5,174)
Noncontrolling interests	4,614	2,788
Other operating activities	2,062	(206)
Change in assets and liabilities:		
Patient accounts receivables	(84,732)	(108,722)
Inventories of supplies, prepaid expenses and other current assets	1,958	766
Due from affiliates, net	(4,129)	(13,361)
Pledges receivable	37,052	14,179
Other assets	(15,815)	(47,895)
Accounts payable, accrued liabilities and accrued vacation	16,992	(5,075)
Medical claims reserve	19,133	2,513
Deferred revenue	13,606	7,084
Advances from third-party payors	(2,184)	3,967
Accrued pension benefit costs	25,368	(3,244)
Estimated malpractice costs	486	3,060
Other long-term liabilities	928	(2,353)
Net cash and cash equivalents provided by operating activities	307,223	201,030
Investing activities:		
Purchases of property, plant and equipment	(318,907)	(399,557)
Return of equity investments	10,364	9,229
Purchases of investment securities	(1,291,950)	(1,404,807)
Sales of investment securities	1,124,166	1,444,344
Cash acquired as a result of consolidation of equity method investment	-	157,176
Other investing activities	(2,824)	347
Net cash and cash equivalents used in investing activities	(479,151)	(193,268)
Financing activities:		
Proceeds from restricted contributions and investment income received	69,300	61,333
Proceeds from long-term borrowings	150,000	73,515
Repayment of long-term debt and obligations under capital lease	(29,106)	(84,494)
Other financing activities	(7,892)	236
Net cash and cash equivalents provided by financing activities	182,302	50,590
Increase in cash and cash equivalents	10,374	58,352
Cash and cash equivalents at beginning of year	390,823	332,471
Cash and cash equivalents at end of year	$ 401,197	$ 390,823

See notes to the combined financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization. The Johns Hopkins Health System Corporation ("JHHSC") is incorporated in the State of Maryland to, among other things, formulate policy among and provide centralized management for JHHSC and Affiliates ("JHHS"). In addition, it provides certain shared services including purchasing, legal, advertising, finance and other functions. JHHS is organized and operated for the purpose of promoting health by functioning as a parent holding company of affiliates whose combined 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 this country or abroad.

JHHSC is the sole member of The Johns Hopkins Hospital ("JHH"), an academic medical center, Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), a community based teaching hospital and long-term care facility, Howard County General Hospital, Inc. ("HCGH"), a community based hospital, Suburban Hospital, Inc. ("SHI"), a community based hospital, Suburban Hospital Healthcare System, Inc. ("SHHS"), a diverse healthcare system, Johns Hopkins Community Physicians ("JHCP"), a community based physician practice group, and The Johns Hopkins Medical Services Corporation ("JHMSC"), the contracting entity for the Uniformed Services Family Health Plan contract, and the HCGH OB/GYN Associates Series, LLC ("HCOB"), a taxable community based obstetrics and gynecology practice. JHHSC is also the sole shareholder of Howard County Health Services, Inc. ("HSI"), a taxable entity organized to hold interests in various health care enterprises, Johns Hopkins Medical Management Corp. ("JHMMC"), a taxable entity organized to provide temporary nursing and clerical staffing and to promote ambulatory care arrangements in support of JHHS, and Johns Hopkins Employer Health Programs, Inc. ("EHP"), a taxable third-party administrator for employee health benefit plans self-funded by the constituent employee sponsors. JHHSC owns a 99.7% interest in Ophthalmology Associates, LLC ("OA"), a taxable professional services organization which operates an ophthalmology center at Green Spring Station. JHHSC and the Johns Hopkins University (the "University") each own a 50% membership interest in Johns Hopkins HealthCare LLC ("JHHC"), a taxable managed care entity supporting JHHS and the University in cooperative strategies by which patient care, education, and research may be advanced. JHHSC consolidates JHHC. These entities are all operating entities and are collectively known as the "Affiliates".

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 combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of combination. The combined financial statements include the accounts of JHHSC and all Affiliates after elimination of all significant intercompany accounts and transactions.

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. JHHS has not experienced such losses on these funds.

Inventories. 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 the donor are recorded at fair value at the date of donation, which is then considered cost. Investment income or losses on investments of temporarily or permanently restricted assets is recorded as an increase or decrease in temporarily or permanently 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, pledges receivable, and assets held for malpractice funding. These assets consist primarily of cash and short-term investments, accrued interest and pledges receivable. The carrying amounts reported in the Combined Balance Sheets approximate fair value.

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 Combined Balance Sheets. 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 in managed funds (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 Statements of Operations as an unrealized gain or loss within the performance indicator.

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 Combined 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 Combined Statements of Operations and Changes in Net Assets and is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments other than alternative investments are excluded from excess of revenues over expenses.

Investments in companies in which JHHS 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 investment income or changes in net assets on the Combined 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 JHHS 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.

Property, plant and equipment. Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of lease term or estimated useful life of the equipment. Estimated useful lives assigned by JHHS range from 3 to 25 years for land improvements, 3 to 50 years for buildings and improvements, 3 to 25 years for fixed and movable equipment, and 4 to 20 years for leasehold improvements. Interest costs incurred on borrowed funds, net of income earned, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repair and maintenance 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 $30,000 ($100,000 for JHH) 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. Preliminary costs to document system requirements, vendor selection, and any costs incurred before the software purchase are expensed. Capitalization of costs will generally end when the project is completed and 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 in 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. JHHS' 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 and are reported in the non-operating section of the Statements of Operations and Changes in Net Assets. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Impairment charges of $4.5 million were recorded for the year ended June 30, 2010, and no impairment charges were recorded for the year ended June 30, 2009.

Financing expenses. Financing expenses incurred in connection with the issuance of the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") series bonds have been capitalized and are included in other assets. These expenses are being amortized over the terms of the related bond issues using the effective interest method.

Medical claims reserve. JHHC's medical claims reserve is an estimate of payments to be made for reported claims and losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Deferred revenue. JHHC's capitated receipts received in advance for future services to be provided are recorded as deferred revenue.

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

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.

Consolidation of JHHC. In March 2009, a change in the appointment of voting members of the JHHC Board was made whereby JHHSC gained control of JHHC. Therefore, the Balance Sheet and the Statements of Operations and Cash Flows were consolidated as if the transaction had occurred as of July 1, 2008. Upon consolidation of JHHC, JHHS has presented the cash and cash equivalents of JHHC at the time of consolidation as an investing activity in the statement of cash flows. This retroactive accounting treatment is appropriate for not-for-profit entities to best reflect the business transaction that has occurred. There was no change in the net assets of JHHSC from before and after consolidation since JHHSC had already been recording its share of JHHC's equity through the equity method of accounting.

Noncontrolling interests. JHHC is owned by JHHSC and the University, each member having a 50% interest. JHHC's profits are divided between the members based on product line. JHHSC records noncontrolling interest for the profits attributable to the University.

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. JHHS 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 JHHS' Combined Statements of Operations and Changes in Net Assets.

Temporarily and permanently 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. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Income generated from these assets is available as restricted by the donor or for general program support.

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 JHHS 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 either temporarily or permanently 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 for the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Combined 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 combined financial statements.

Grants. JHHS receives various grants from individuals and agencies of the 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. Grant receivables are included in due from others and grant income is included in other revenue in the accompanying combined financial statements.

Excess of revenues over expenses. The Combined 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, change 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 or 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. JHHSC and the Affiliates, except JHMMC, EHP, HSI, OA, HCOB, and JHHC are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore not subject to tax under current income tax regulations.

JHHC is classified as a partnership for Federal and State income tax purposes and accordingly, there is no provision for income taxes in the accompanying combined financial statements. Taxable income or loss passes through to and is reported by the members in their respective tax returns. Taxable subsidiaries of Affiliates account for income taxes in accordance with FASB's guidance on accounting for income taxes. Deferred income taxes are recognized for the tax consequences in future years for differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end. Affiliate subsidiaries otherwise exempt from Federal and State taxation are nonetheless subject to taxation at corporate tax rates at both the Federal and State levels on their unrelated business income.

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. JHHS has adopted this guidance, and there was no impact on its financial statements during the years ended June 30, 2010 and 2009.

Reclassifications. Certain amounts from the prior year have been reclassified in order to conform to current year presentation.

Acquisition of SHHS. Effective June 30, 2009, JHHSC became the sole member of SHHS, which was the sole member of SHI. No consideration was given for this transaction that was accounted for as a pooling of interests. Under pooling of interests, this transaction is accounted for as if it had occurred as of the earliest period presented. This retroactive accounting treatment is appropriate for not-for-profit entities to best reflect the business transaction that has occurred. Subsequently, in January 2010, JHHSC became the sole member of SHI, which had no impact on the combined financial statements.

2. Net Patient Service Revenue

JHHS has agreements with third-party payors that provide for payments to JHHS 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 gross patient service revenue were $363.2 million and $282.0 million for the years ended June 30, 2010 and 2009, respectively.

JHHS' not-for-profit Affiliates provide 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 the Affiliates do not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges for these services, measured at JHHS Affiliates' established rates, amounted to $53.4 million and $72.7 million for the years ended June 30, 2010 and 2009, respectively.

Capitation payments included in net patient service revenue are recognized as premium revenues during the period in which JHHS Affiliates are obligated to provide services to its enrollees at contractually determined rates.

Approximately 21.0% and 22.9% of patient accounts receivable were due from the Medicare program, 10.0% and 7.9% from the Medicaid program, 14.9% and 15.0% from Blue Cross and Blue Shield, 46.5% and 46.8% from self pay and other third-party payers, and 7.6% and 7.4% from Medicaid managed care organizations as of June 30, 2010 and 2009, respectively.

3. Pledges Receivable

As of June 30, 2010, the total value of pledges receivable was $29.3 million. This amount has been discounted at rates ranging from 1.8% to 6.0% and consists of the following (in thousands):

	1 Year	2 –5 Years	5 Years or Greater	Totals
Departmental capital campaigns	$ 312	$ 3,641	$ 175	$ 4,128
Future campus development	5,439	15,897	368	21,704
	$5,751	$ 19,538	$ 543	$25,832

Pledges are deemed to be fully collectible 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 its performance indictor. 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. This guidance was effective for fiscal years beginning after November 15, 2007. JHHS did not elect fair value accounting for any asset or liability that was not currently required to be measured at fair value.

JHHS adopted FASB's 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.

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.

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, 2010 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 244,179	$ 22,895	$ 221,284
Certificates of deposit (1)	1,113	-	1,113
U.S. treasury notes (2)	152,279	-	152,279
Corporate bonds (2)	274,724	-	274,724
Mortgage backed securities (2)	203,588	-	203,588
Equity index funds (3)	166,790	25,891	140,899
Totals	$ 1,042,673	$ 48,786	$ 993,887
Liabilities			
Interest rate swap agreements (5)	$ 149,243	$ -	$ 149,243

The following table presents the financial instruments carried at fair value as of June 30, 2009 grouped by hierarchy level:

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 418,163	$ 113,398	$ 304,765
Certificates of deposit (1)	1,215	-	1,215
U.S. treasury notes (2)	74,332	-	74,332
Corporate bonds (2)	205,081	-	205,081
Mortgage backed securities (2)	132,920	-	132,920
Equity index funds (3)	150,921	27,491	123,430
Equities (4)	10,562	10,562	-
Totals	$ 993,194	$ 151,451	$ 841,743
Liabilities			
Interest rate swap agreements (5)	$ 109,694	$ -	$ 109,694

(1) Cash equivalents include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost, which approximates fair value. Certificates of deposit have original maturities greater than three months and are considered short-term investments. Computed prices and frequent evaluation versus market value render these certificates of deposit level 2.
(2) For investments in U.S. treasury notes, 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. Significant changes in the credit quality of the underlying entity are analyzed and any other than temporary impairments are recorded upon that determination.
(3) Equity index funds are 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 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.
(4) Equities are investments in individual stocks. Equities are valued based on the last sales price for identical securities traded on a primary exchange rendering them level 1.
(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.

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 JHHS 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.

The estimated total fair value of long-term debt excluding capital leases, based on quoted market prices for the same or similar issues, was approximately $1.2 billion and $973.3 million as of June 30, 2010, and 2009, respectively.

JHHS holds alternative investments that are not traded on national exchanges or over-the counter markets. JHHS is provided a net asset value per share for these alternative investments that has been calculated in 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 JHHS' alternative investments. The following table displays information by major alternative investment category as of June 30, 2010 (in thousands):

Description	Fair Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$ 42,146	Monthly/manager's discretion	5 days	15-30 days
Fund of funds	$ 16,342	Monthly, quarterly or annually	30-60 days	(1)

(1) 5-30 days, or 90% in 30 days, 10% after annual audit

5. Investments and Assets Whose Use is Limited

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

	2010		2009	
	Cost	Market	Cost	Market
U.S. treasury notes	$ 91,873	$ 96,976	$ 25,981	$ 29,382
Investments in affiliates	76,082	76,082	69,785	69,785
Certificates of deposit	613	613	1,215	1,215
Corporate bonds	195,013	202,292	94,780	103,684
Mortgage backed securities	150,414	157,511	59,236	67,257
Equity index funds	68,027	60,149	54,781	43,077
Alternative investments	58,352	54,007	57,939	49,486
	$ 640,374	$ 647,630	$ 363,717	$ 363,886

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

	2010		2009	
	Cost	Market	Cost	Market
Cash and cash equivalents	$45,002	$45,002	$76,365	$76,365
U.S. treasury notes	50,055	55,303	59,524	59,697
Mortgage backed securities	44,780	46,077	66,559	68,225
Corporate bonds	71,352	72,432	108,720	105,503
Alternative investments	24,655	29,780	24,786	26,893
Pledges receivable	25,832	25,832	63,479	63,479
Beneficial interest remainder trust	6,275	6,275	5,295	5,295
Equity index funds	124,536	106,641	130,467	100,366
Interest in net assets of HHF	13,898	13,898	13,214	13,214
Other	100	100	100	100
	$406,485	$401,340	$548,509	$519,137

The following tables show the gross unrealized losses and fair value of JHHS' 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 (in thousands):

As of June 30, 2010

	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	$ 19,619	$ 135	$ -	$ -	$ 19,619	$ 135
Corporate bonds	37,230	277	6,159	898	43,389	1,175
Mortgage backed securities	15,878	205	2,493	39	18,371	244
Alternative investments	-	-	49,524	4,878	49,524	4,878
Equity index funds	7,416	128	115,838	29,087	123,254	29,215
Total	$ 80,143	$ 745	$ 174,014	$ 34,902	$ 254,157	$ 35,647

As of June 30, 2009

	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	$ 64,541	$ 181	$ 1,718	$ 7	$ 66,259	$ 188
Corporate bonds	5,681	748	42,242	2,713	47,923	3,461
Mortgage backed securities	17,327	99	567	29	17,894	128
Alternative investments	22,326	3,924	22,891	4,994	45,217	8,918
Equity index funds	12,156	4,625	100,475	39,339	112,631	43,964
Total	$ 122,031	$ 9,577	$ 167,893	$ 47,082	$ 289,924	$ 56,659

There were 111 and 148 investment positions in an unrealized loss position as of June 30, 2010 and 2009, respectively. 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, JHHS does not have the intent or requirement to sell them; therefore, JHHS does not consider these investments to be other-than-temporarily impaired as of June 30, 2010 and 2009. The equities are invested in broad based index funds and have fluctuated between an unrealized gain or loss position since acquisition and based on management's impairment policy, JHHS does not consider these investments to be other-than-temporarily impaired as of June 30, 2010 and 2009.

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

	2010	2009
Realized losses on investments	$(1,451)	$(10,799)
Unrealized gains (losses) on alternative investments	6,480	(13,468)
Total	$ 5,029	$(24,267)

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

Entity	Cost / Equity	%	2010	2009
Johns Hopkins International, LLC ("JHI")	Equity	50.00%	$13,143	$14,649
Johns Hopkins Home Care Group, Inc. ("JHHCG")	Equity	50.00%	6,002	4,632
FSK Land Corporation	Equity	50.00%	6,434	5,996
Broadway Development Corp.	Equity	50.00%	2,347	2,534
Mt. Washington Pediatric Hospital and Foundation	Equity	50.00%	11,725	7,080
Dome Corporation	Equity	50.00%	1,738	1,156
JHMI Utilities, LLC	Equity	50.00%	3,737	2,578
Sibley-Suburban Home Health Agency, Inc.	Equity	50.00%	2,503	1,976
Suburban/NRH Medical Rehabilitation, Inc.	Equity	50.00%	839	1,079
Germantown Wellness and Fitness, LLC	Equity	50.00%	690	537
Rockville Imaging, LLC	Equity	40.00%	320	478
Chevy Chase Imaging, LLC	Equity	27.00%	287	342
Howard County MRI, L.P.	Equity	25.00%	--	806
Ten Acres Medical Center, LLC	Equity	25.00%	2,464	4,057
Sleep Services of America	Equity	24.30%	3,221	3,449
Central Maryland Radiation Oncology, LLC	Equity	20.00%	1,582	--
Suburban Endoscopy, LLC	Equity	20.00%	149	132
Johns Hopkins Suburban Health Center, L.P.	Cost	19.00%	1,317	973
MCIC Bermuda	Cost	10.00%	15,150	14,132
MCIC Vermont	Cost	10.00%	1,000	1,000
Patient First Corporation	Cost	3.00%	750	1,500
Other			684	699
			$76,082	$69,785

6. Property, Plant and Equipment

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

	2010		2009	
	Cost	Accumulated Depreciation and Amortization	Cost	Accumulated Depreciation and Amortization
Land and land improvements	$ 34,557	$ 5,488	$ 37,518	$ 11,041
Buildings and improvements	1,111,558	491,127	1,021,656	466,524
Fixed and moveable equipment	869,837	545,430	901,184	634,489
Capitalized software	118,528	59,410	111,324	48,918
Construction in progress	749,475	-	702,763	-
	$ 2,883,955	$ 1,101,455	$ 2,774,445	$ 1,160,972

Accruals for purchases of property, plant and equipment as of June 30, 2010 and 2009 amounted to $42.7 million and $36.6 million, respectively, and are included in accounts payable and accrued liabilities in the Combined Balance Sheets. Depreciation and amortization expense for the years ended June 30, 2010 and 2009 amounted to $131.3 million and $115.9 million, respectively.

During the year ended June 30, 2010, pursuant to the completion of several phases of its campus development plan, JHHS determined that certain long-lived assets had no remaining future value. JHHS recorded impairment charges on long-lived assets of $4.5 million, which are included in the non-operating section of the Statement of Operations included in excess of revenues over expenses. The original cost of the impaired assets removed from the books was $8.2 million, with a corresponding accumulated depreciation of $3.7 million. There was no impairment charges recorded for the year ended June 30, 2009.

During the year ended June 30, 2010, JHHS retired long-lived assets determined to have no future value and a zero net book value. The original cost and corresponding accumulated depreciation of these long-lived assets was $185.8 million and $185.3 million, respectively. No proceeds from retirement were received.

JHH and the University share various facilities, equipment, software, and services. The costs related to these facilities, equipment, software, 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 the University, these costs are allocated to both institutions on the basis of usage. The University leased approximately 25.9% and 26.7% of the net square footage within JHH's buildings as of June 30, 2010 and 2009, respectively.

7. Medical Claims Reserves

JHHC's activity related to its liability for unpaid health claims for the years ended June 30 are summarized in the table below (in thousands):

	2010	2009
Balance, July 1	$ 64,896	$ 62,383
Incurred related to:		
Current year	703,881	580,200
Prior year	(8,753)	(18,677)
Total incurred	695,128	561,523
Paid related to:		
Current year	619,853	515,304
Prior year	56,142	43,706
Total paid	675,995	559,010
Balance, June 30	$ 84,029	$ 64,896

The medical claims reserve is inherently subject to a number of highly variable circumstances, including changes in payment patterns, cost trends and other relevant factors. Consequently, the actual experience may vary materially from the original estimate. The above medical claims reserves include intercompany activity that is eliminated in combination.

8. Debt

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

	2010		2009	
	Current Portion	Long-term Portion	Current Portion	Long-term Portion
MHHEFA Bonds and Notes:				
1985 Series A and B – Pooled Loan Program Issue (JHBMC, JHHS and JHCP)	$ 1,283	$ 9,696	$ 1,279	$ 10,977
1990 Series - Revenue Bonds (JHH)	9,370	59,753	-	64,323
1998 Series - Revenue Bonds (HCGH) - net of original issue discount of $1,833 and $1,966 as of June 30, 2010 and 2009, respectively	2,675	113,547	2,560	116,089
2001 Series – Revenue Bonds (JHH) – net of original issue discount of $816 and $827 as of June 30, 2010 and 2009, respectively	2,595	81,244	2,465	83,828
2004 Series A - Revenue Bonds (SHI) – including original issue premium of $411 and $527 as of June 30, 2010 and 2009, respectively	2,875	18,316	2,845	21,307
2004 – Commercial Paper Series A (JHH)	1,450	54,625	5,180	56,075
2004 – Commercial Paper Series B (JHBMC)	3,630	85,960	75,400	17,650
2004 – Commercial Paper Series C (JHH)	-	60,000	40,000	20,000
2007 – Commercial Paper Series D (JHH)	-	40,000	22,000	18,000
2008 – Commercial Paper Series E (JHH)	-	84,100	-	84,100
2008 – Commercial Paper Series F (JHH)	-	84,550	-	84,550
2008 Variable Rate Demand Bonds – Series A	485	11,050	470	11,535
2008 Series – Revenue Bonds (HCGH)	-	40,000	-	40,000
2008 Series - Revenue Bonds (JHH) – including original issue premium of $4,958 and $5,109 as of June 30, 2010 and 2009, respectively	-	149,697	-	149,848
2008 Series – Revenue Bonds (SHI)	1,385	56,290	840	57,675
2010 Series - Revenue Bonds (JHH) – including original issue premium of $1,805 as of June 30, 2010	-	150,000	-	-
Other debt:				
Capital leases (SHHS)	331	34,945	191	33,910
Line of credit (SHI and SHHS)	-	-	9,895	-
Johns Hopkins Endowment (JHHS)	336	3,010	317	3,346
	$26,415	$ 1,136,783	$ 163,442	$ 873,213

Obligated Group

The Johns Hopkins Health System Obligated Group ("JHHS Obligated Group") consists of JHH, JHBMC, SHHS and 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 a JHH debt issuance. The 2004 JHBMC Commercial Paper Series B, the SHI 2004 Series A Revenue Bonds, the JHBMC 2008 Variable Rate Demand Bonds Series A, the JHH and JHBMC Pooled Loan Program Issue Series 1985A and 1985B debt, the JHH 1990, 2001 and 2008 Series Revenue Bonds, the JHH 2004 Commercial Paper Series A and C, the JHH 2007 Commercial Paper Series D, the JHH 2008 Commercial Paper Series E and F, the SHI 2008 Series Revenue Bonds, the

JHH 2010 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, 2010, JHH, JHBMC, SHI, and SHHS were in compliance with these requirements. As of June 30, 2010, the outstanding JHH, JHBMC, SHI, and SHHS parity debt was $963.5 million. As of June 30, 2009, the outstanding JHH and JHBMC parity debt was $742.6 million.

1985A and B – Pooled Loan Program – JHBMC, JHHS & JHCP
JHBMC, JHHS and JHCP entered into loan agreements by borrowing through draws from the $175.0 million MHHEFA Revenue Bonds, Pooled Loan Program Issue, Series 1985A and Series 1985B. The debt bears interest at a variable rate. The interest rate in effect for the years ended June 30, 2010 and 2009 was 0.80% and 1.10%, respectively. The JHBMC and JHHS loans are due June 30, 2013. The JHCP loan is payable in monthly installments through May 15, 2026, and is guaranteed by JHBMC.

1990 Series--Revenue Bonds - JHH
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 which pay non-current interest until maturity. 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 $47.3 million and $44.0 million as of June 30, 2010 and 2009, 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 2011 to 2015. Term Capital Appreciation Bonds of $21.8 million and $20.3 million as of June 30, 2010 and 2009, respectively, are due July 1, 2019 and bear interest, compounded semi-annually at a rate of 7.40%. Annual sinking fund installments for the Term Capital Appreciation Bonds is $9.4 million from July 1, 2016 to July 1, 2019.

1998 Series--Revenue Bonds - HCGH
In June 1998, Howard County Acquisition Corporation (now known as HCGH) borrowed $133.9 million through the issuance by MHHEFA of its 1998 Johns Hopkins Medicine Howard County General Hospital Series Revenue Bonds with stated interest rates ranging from 4.15% to 5.00%. Annual principal payments totaling $11.5 million as of June 30, 2010, ranging from $2.7 million to $3.1 million, are due July 1 of each year until 2013. The bonds include three series of term bonds - $21.9 million due July 1, 2019, $54.3 million due July 1, 2029, and $30.3 million due July 1, 2033. The annual sinking fund payments on these term bonds range from $3.2 million on July 1, 2014 to $8.1 million on July 1, 2033. JHH and the University have each guaranteed 4.5% of the aggregate principal amount of the 1998 Bonds together with accrued interest limited to the regularly scheduled payments of principal and interest at an annual amount of $385 thousand each. The bond discount is being amortized on a straight-line basis over the term of the bonds.

2001 Series - Revenue Bonds - JHH
The outstanding 2001 bonds consist of Serial Bonds of $17.2 million and $19.6 million as of June 30, 2010 and 2009, 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 Series A and B – Revenue Bonds – SHI
In June 2004, SHI issued $72 4 million principal amount of Revenue Bonds, Series 2004 A and B The proceeds of the bonds were used to advance refund the remaining balance of the Series 1993 bonds The 2004A bonds consist of $18 3 million of Serial bonds due in annual installments beginning July 1, 2005 at interest rates between 4 25% and 5 5%, and $8 2 million Term bonds due on July 1, 2016 at a rate of 5 5% Interest is payable semiannually on January 1 and July 1 of each year on the fixed rate Series 2004A bonds The bond premium is being amortized over the term of the remaining 2004A bonds The Series 2004B bonds were fully repaid during 2009 with the proceeds of the SHI 2008 Series Revenue Bonds

2004 Commercial Paper Revenue Notes – Series A - JHH
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, 2010 and 2009 were approximately 0 33% and 1 39%, 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 to provide for payment of such commercial paper at maturity, subject to certain conditions described therein This agreement expires on October 31, 2011, subject to extension or earlier termination

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, 2010 or 2009

2004 Commercial Paper Revenue Notes – Series B - JHBMC
The Series B 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, 2010 and 2009 were approximately 0 34% and 0 47%, respectively Annual payments of principal began July 1, 2004 and range in amounts from $425 thousand on July 1, 2004 to $8 3 million on July 1, 2025

In connection with the 2004 Commercial Paper Revenue Notes – Series B, JHBMC entered into a $89 6 million line of credit agreement with Wachovia Bank, National Association to provide for payment of such commercial paper at maturity, subject to certain conditions described therein This agreement expires on October 31, 2011 subject to extension or earlier termination

Amounts advanced under the line of credit agreement bear interest at a variable rate based upon the overnight Federal funds rate plus 30% for the first 90 days outstanding and at a prime rate plus 2% 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, or the date of receipts by JHBMC of the proceeds of any subsequent issuances of notes and the final date No amounts were outstanding as of June 30, 2010 or 2009 Since this liquidity facility must be repaid within 360 days, $71 9 million of commercial paper notes that were scheduled for remarketing during the period July 1 through July 6, 2009 were reclassified as short-term in the Combined Balance Sheet This commercial paper was successfully remarketed subsequent to June 30, 2009 There were no commercial paper notes that were required to be reclassified as short-term in the June 30, 2010 Balance Sheet

2004 Commercial Paper Revenue Notes – Series C - JHH
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 rate for the year ended June 30, 2010 and 2009 was approximately 0.66% and 1.62%, 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 of the date that is 360 days from the date of receipt by JHH of the proceeds of subsequent issuances of notes and the final date. No amounts were outstanding as of June 30, 2010 or 2009. Since this liquidity facility must be repaid within 360 days, $40.0 million of commercial paper notes that were scheduled for remarketing during the period July 1 through July 6, 2009 were reclassified as short-term in the balance sheet. This commercial paper was successfully remarketed subsequent to June 30, 2009.

There were no commercial paper notes that were required to be reclassified as short-term in the June 30, 2010 Balance Sheet.

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 - JHH
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, 2010 and 2009 were approximately 0.66% and 1.47%, respectively.

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, 2010 or 2009. Since this liquidity facility must be repaid within 360 days, $22.0 million of commercial paper notes that were scheduled for remarketing during the period July 1 through July 6, 2009 were reclassified as short-term in the balance sheet. This commercial paper was successfully remarketed subsequent to June 30, 2009. There were no commercial paper notes that were required to be reclassified as short-term in the June 30, 2010 Balance Sheet.

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. This debt was issued to retire the 2007 Series A and Series B Revenue Bonds. The 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 year ended June 30, 2010 were approximately 0.32% and 0.33% for the Series E and Series F notes, respectively. The interest rates for the year ended June 30, 2009 were approximately 1.18% and 1.21% for the Series E and 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, National Association equal to the principal amount of the Notes plus thirty-four days of interest at the maximum rate of 12.0%. This agreement expires on June 30, 2015, subject to extension or earlier termination.

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, 2010 or 2009.

2008 Variable Rate Demand Bonds – Series A – JHBMC

The Variable Rate Demand Bonds - Series A pay interest monthly at a variable rate based on the bonds sold by a designated re-marketing agent on a weekly basis. The rates for the years ended June 30, 2010 and 2009 were approximately 0.25% and 0.27%, respectively. Annual payments of principal will begin May 15, 2009 and range in amount from $210 thousand on May 15, 2009 to $915 thousand on May 15, 2027.

In connection with the 2008 Variable Rate Demand Bonds - Series A, JHBMC entered into a $12.2 million letter of credit agreement with PNC Bank, National Association to provide for payment of such bonds at maturity, subject to certain conditions described therein. This agreement expires on April 23, 2013 subject to extension or earlier termination. The cost of the letter of credit is 0.40% per annum. There have been no amounts drawn on the letter of credit as of June 30, 2010 or 2009.

2008 Series-Revenue Bonds - HCGH

In May 2008, HCGH borrowed $40.0 million through the issuance by MHHEFA of its 2008 Series Revenue Bonds ("2008 Bonds") to finance the expansion, renovation and equipping of HCGH's acute care hospital. The 2008 Bonds are due July 1, 2046, and bear interest at a weekly rate and pay interest monthly. The rates for the years ended June 30, 2010 and 2009 were approximately 0.23% and 1.27%, respectively. Annual sinking fund installments begin July 1, 2034, ranging from $2.3 million to $3.9 million. The 2008 Bonds are collateralized by a pledge of the receipts of HCGH and guaranteed by the JHHS Obligated Group.

In connection with the 2008 Bonds, HCGH entered into a $40.5 million direct-pay letter of credit agreement with PNC Bank, National Association to provide for the payment of principal and interest on the 2008 Bonds. This agreement includes the principal amount of the debt plus 42 days of interest at the maximum rate of 10%, and expires on May 8, 2013, subject to extension or earlier termination. The advances are repayable on the earliest of the date that is 367 days from the date of such advance, the date of termination, the date of receipts by HCGH of the proceeds of any subsequent issuances of notes and the final due date. There have been no amounts drawn on the letter of credit as of June 30, 2010 or 2009.

2008 Series Revenue Bonds - JHH

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 that begin in 2036 in amounts of $2.3 million to $20.2 million in 2048. 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 these initial periods the interest rate on each tranche is reset. 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. The bonds were sold at a premium of $5.3 million which is being accounted for using the bond outstanding method.

2008 Series Revenue Bonds - SHI
In November 2008, SHI issued $58.5 million principal amount of MHHEFA Revenue Bonds, Series 2008. The bonds are due in annual installments beginning July 1, 2009 and bear interest at a daily rate, weekly rate, commercial paper rates, or long term rate as selected by the issuer and payable at varying periods depending on the interest rate type. The rates for the years ended June 30, 2010 and 2009 were approximately 0.25% and 2.5%, respectively. Annual sinking fund installments began July 1, 2009 and range from $840 thousand to $6.2 million. The proceeds of the bonds were used to advance refund the remaining balance of the SHI Series 2004B bonds and to finance or refinance the acquisition, construction, renovations or equipping of healthcare facilities.

2010 Series Revenue Bonds - JHH
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 $500 thousand 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.

Line of Credit
SHHS entered into a $15.0 million line of credit agreement with SunTrust Bank dated November 21, 2008. This line of credit is at the rate of LIBOR plus 1.00%. The amount outstanding as of June 30, 2010 and 2009 was zero and $9.9 million, respectively.

Johns Hopkins Endowment Loan - JHHS
JHHS has a $6.1 million loan from the The Johns Hopkins Endowment Fund, Incorporated ("Endowment Corporation"). The proceeds of this loan were used for the renovation of the Pavilions II building at Green Spring Station. The loan is payable in monthly installments beginning July 1, 1998 and bears an interest rate of 6%. The amount outstanding on the loan was $3.3 million and $3.7 million as of June 30, 2010 and 2009, respectively.

For the debt of JHHS and Affiliates, total maturities of debt and sinking fund requirements, excluding capital leases, during the next five fiscal years and thereafter are as follows as of June 30, 2010 (in thousands):

2011	$ 26,084
2012	35,636
2013	27,483
2014	39,101
2015	36,663
Thereafter	958,430
	$ 1,123,397

For the debt of JHHS and Affiliates described above, interest costs incurred, paid and capitalized in the years ended June 30 are as follows (in thousands):

	2010	2009
Net interest costs:		
Capitalized	$ 8,921	$12,395
Expensed	46,970	42,858
Allocated to others	64	64
	$ 55,955	$55,317
Interest costs paid	$ 49,935	$48,749

Capital Leases

On November 2, 1999, SHHS entered into a lease agreement with an unrelated party for the lease of real property. The leased property consists of land and a building, located in north Bethesda, Maryland, which is known as the Suburban Outpatient Medical Center ("SOMC"). The lease term began on August 1, 2001 and will continue through December 31, 2026. The base rent escalates 2.25% per year, in accordance with the lease agreement. The lease contains four optional renewal periods for five years each.

The SOMC lease has been recorded as a capital lease, as the SOMC lease agreement satisfies the requirements for capitalization under accounting principles generally accepted in the United States. Accordingly, the leased property of $36.8 million is reflected in property, plant and equipment as of June 30, 2010 and 2009. Accumulated depreciation on the SOMC asset was $12.5 million and $11.0 million as of June 30, 2010 and 2009, respectively.

Depreciation expense on these assets is included within depreciation expense in the Combined Statements of Operations and Changes in Net Assets.

The future minimum lease payments required under JHHS capital leases are as follows as of June 30, 2010 (in thousands):

	Capital Lease Payments
2011	$ 3,951
2012	4,062
2013	4,145
2014	4,231
2015	4,127
2016 and thereafter	52,721
Minimum lease payments	73,237
Interest on capital lease obligations	(37,961)
Net minimum payments	35,276
Current portion of capital lease obligation	(331)
Capital lease obligation, less current	$ 34,945

9. Derivative Financial Instruments

JHHS' 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 $690.9 million and $699.6 million as of June 30, 2010 and 2009, respectively.

JHHS 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 JHHS' derivative financial instruments are interest rate swap agreements without hedge accounting designation.

The value of interest rate swap agreements entered into by JHHS 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 Combined 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. JHHS 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. JHHS 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 Combined Statements of Operations and Changes in Net Assets.

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 fair value. As of June 30, 2010 and 2009, the amount of required collateral was $65.3 million and $48.5 million, respectively. The collateral is included in other long-term assets on the Combined Balance Sheets.

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

	Derivatives reported as liabilities			
	2010		2009	
	Balance Sheet Caption	Fair Value	Balance Sheet Caption	Fair Value
Interest rate swaps not designated as hedging instruments	Other long-term liabilities	$ 149,243	Other long-term liabilities	$ 109,694

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

Classification of derivative loss in Statement of Operations	Amount of loss recognized in change in unrestricted net assets	
	2010	2009
Interest rate swaps:		
Non-operating expense	$ (39,549)	$ (57,997)

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

In January 2004, JHH entered into a fixed payor interest swap with J.P. Morgan. The notional amount on this swap agreement was $56.1 million and $61.3 million as of June 30, 2010 and 2009, respectively. JHH will pay 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 2004 Series A Notes. The floating rates as of June 30, 2010 and 2009 were 0.23% and 0.21%, respectively.

In January 2004, JHBMC entered into a fixed payor interest rate swap agreement with Bank of America. The notional amount on this swap agreement was $89.6 million and $93.1 million as of June 30, 2010 and 2009, respectively. JHBMC will pay Bank of America a fixed annual rate of 3.3265% on the outstanding loan value of the 2004 Series B 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 2004 Series B Notes. The floating rates as of June 30, 2010 and 2009 were 0.23% and 0.21%, respectively.

In May 2004, SHI entered into a fixed payor interest rate swap agreement with J P Morgan in connection with the issuance of Series 2004B tax-exempt floating rate securities with a notional amount of $25 0 million This swap agreement carries a term of 17 years with payments beginning July 1, 2004 SHI will pay J P Morgan a fixed annual rate of 3 919% on the notional amount of the swap agreement in return for the receipt of a floating rate of interest equal to 68% of the one month LIBOR rate The floating rate payments from the interest rate swap agreements are intended to substantially offset the floating rate of the debt issue The floating rates as of June 30, 2010 and 2009 were 0 24% and 0 22%, respectively

In April 2006, JHH entered into two fixed payor interest rate swap agreements with Goldman Sachs Capital Markets, L P ("GSCM") The notional amount on these swap agreements is $150 0 million each Payments under the first of the 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 will pay GSCM a fixed annual rate of 3 911% on the notional amount 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 will pay GSCM a fixed annual rate of 3 922% on the notional amount of the swap agreement 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, 2010 and 2009 were 0 23% and 0 21%, respectively

In May 2006, HCGH entered into a forward start fixed payor interest rate swap agreement with Goldman Sachs & Co in connection with a future issue of tax-exempt floating rate securities The notional amount on this swap agreement is $40 0 million Payments began June 1, 2007 and carry a term of 32 years HCGH will pay GSCM a fixed annual rate of 3 946% on the notional amount of the swap agreement 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 the interest rate swap agreement are intended to substantially offset the floating rate of the debt issue JHHS has guaranteed the prompt payment of this interest rate swap agreement The floating rates as of June 30, 2010 and 2009 were 0 23% and 0 21%, respectively

In July 2007, JHH entered into two 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, 2010 and 2009 were 0 23% and 0 21%, respectively

In July 2007, JHBMC entered into a forward start fixed payor interest rate swap agreement with GSCM in connection with a future issue of tax-exempt floating rate securities with a notional amount of $11 5 million This swap agreement carries a term of 19 5 years with payments beginning November 15, 2007 JHBMC will pay Goldman Sachs & Co a fixed annual rate of 3 691% on the notional amount of the swap agreement 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 the interest rate swap agreements are intended to substantially offset the floating rate of the debt issue The floating rates as of June 30, 2010 and 2009 were 0 23% and 0 21%, respectively

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of June 30 (in thousands) are restricted to:

	2010	2009
Purchase of property, plant, and equipment	$ 403,627	$ 460,115
Health care services	22,584	24,610
Indigent care	1,079	92
Health education and counseling	1,151	1,290
	$ 428,441	$ 486,107

Permanently restricted net assets as of June 30 (in thousands) are restricted to:

	2010	2009
Health care services	$ 12,196	$ 12,196
Health education and counseling	5,081	5,080
	$ 17,277	$ 17,276

The JHHS endowments do not include amounts designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, 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 JHHS has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the JHHS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

11. Pension Plans

The Affiliates sponsor a variety of defined benefit pension plans (the "Plans") covering substantially all of their employees. The retirement income benefits are based on a combination of years of service and compensation at various points of service. The FASB's guidance on employer's accounting for defined benefit pension and other postretirement plans requires that the funded status of defined benefit postretirement plans be recognized on JHHS' Combined Balance Sheets, and changes in the funded status be reflected as a change in net assets.

The funding policy of all Affiliates is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. Assets in the plans as of June 30, 2010 and 2009 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.

The change in benefit obligation, plan assets, and funded status of the Plans is shown below (in thousands):

	2010	2009
Change in benefit obligation		
Benefit obligation as of beginning of year	$ 774,477	$ 726,065
Service cost	36,958	34,783
Interest cost	53,811	51,760
Amendment	-	(4,539)
Actuarial loss (gain)	104,631	(9,006)
Benefits paid	(23,566)	(24,586)
Benefit obligation as of June 30	$ 946,311	$ 774,477
Change in plan assets		
Fair value of plan assets as of beginning of year	$ 513,384	$ 672,530
Actual return on plan assets	72,028	(174,738)
Employer contribution	41,683	40,701
Benefits paid	(24,046)	(25,109)
Fair value of plan assets as of June 30	$ 603,049	$ 513,384
Funded Status as of June 30		
Fair value of plan assets	$ 603,049	$ 513,384
Projected benefit obligation	(946,311)	(774,477)
Funded status	$(343,262)	$(261,093)

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

	2010	2009
Net pension asset	$ -	$ 3,076
Net pension liability	(343,262)	(264,169)
Net amount recognized	$(343,262)	$(261,093)

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

	2010	2009
Actuarial net loss	$ 434,387	$ 362,113
Prior service cost	6,715	8,719
	$ 441,102	$ 370,832
Accumulated benefit obligation	$ 815,312	$ 635,116

Net Periodic Pension Cost

Components of net periodic pension cost (in thousands):

	2010	2009
Service cost	$ 36,958	$ 34,783
Interest cost	53,811	51,760
Expected return on plan assets	(56,600)	(59,717)
Amortization of prior service cost	2,003	2,412
Recognized net actuarial loss	16,870	8,997
Net periodic pension cost	$ 53,042	$ 38,235

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic pension cost in 2011 are $1.8 million and $33.5 million, respectively.

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

	2010	2009
Discount rate	7.10%	7.31%
Expected return on plan assets	8.25%	8.50%
Rate of compensation increase	3.00% - 4.00% (1)	4.25%

(1) The rate of compensation increase was 3.00% for July 1, 2010, and 4.00% thereafter.

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

	2010	2009
Discount rate	6.50%	6.75%
Expected return on plan assets	8.25%	8.25%
Rate of compensation increase	4.00%	4.00%

The assumptions used in determining the benefit obligations for all plans except the SHI plan are as follows as of July 1:

	2010	2009
Discount rate	6.04%	7.10%
Expected return on plan assets	8.25%	8.50%
Rate of compensation increase	2.00% - 3.00% (1)	3.00% - 4.00% (2)

(1) The rate of compensation increase was 2.00% for July 1, 2010, 2.50% for July 1, 2011, and 3.00% thereafter.

(2) The rate of compensation increase was 3.00% for July 1, 2009 and 2010, and 4.00% thereafter.

The assumptions used in determining the benefit obligations for the SHI plan are as follows as of July 1:

	2010	2009
Discount rate	6.04%	6.50%
Expected return on plan assets	8.25%	8.25%
Rate of compensation increase	2.00% - 3.00% (3)	4.00%

(3) The rate of compensation increase was 2.00% for July 1, 2010, 2.50% for July 1, 2011, 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.

Plan Assets
Pension plan weighted average asset allocations as of June 30 by asset category are as follows:

Asset Category	2010	2009
Cash and cash equivalents	4.80%	10.60%
Equity securities	38.50%	38.20%
Global asset allocation strategies	32.20%	29.80%
Debt securities	24.50%	21.40%
Total	100.00%	100.00%

The Plans assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with JHHS' 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) 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 participants 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.

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

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 29,535	$ 890	$ 28,645
Equities (2)	226,891	46,132	180,759
Fixed income funds (3)	109,484	101,171	8,313
Totals	$ 365,910	$ 148,193	$ 217,717

(1) Cash equivalents include investments with original maturities of three months or less. Certificates of deposit are carried at amortized cost, which approximates fair value. Certificates of deposit have original maturities greater than three months and are considered short-term investments. Computed prices and frequent evaluation versus market value render these certificates of deposit level 2.
(2) Equity funds are 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 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 U.S. treasury notes, corporate bonds, mortgage backed securities and mutual funds.

The Plans hold alternative investments that are not traded on national exchanges or over-the counter markets. The Plans are provided a net asset value per share for these alternative investments that has been calculated in 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 the Plans' alternative investments. 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	$ 63,377	Monthly	5 days	15 days
Fund of funds	92,399	Mthly, qtrly, or annual	30 to 65 days	(1)
Hedge funds	13,311	Quarterly	30 days	(2)
Credit funds	25,343	Annual	30 to 90 days	(3)
Distressed credit	20,531	31-Dec-2013		

(1) Within 5 to 30 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)
JHHS expects to contribute $56.0 million to its pension plans in the fiscal year ending June 30, 2011.

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, 2010 (in thousands):

2011	$ 31,034
2012	32,795
2013	36,455
2014	40,709
2015	45,150
2016 – 2020	299,379

HCGH also has a 401(k) savings plan available to all employees, which was amended during 1996. The revised plan provides that HCGH will contribute 1% to 2% of each employee's total compensation in addition to contributing from fifty cents to one dollar and fifty cents, based on years of service, for each dollar contributed by the employee. HCGH's contribution match basis is limited to 6% of the employee's total compensation. HCGH funded $2.8 million and $2.6 million for the years ended June 30, 2010 and 2009, respectively.

12. Maryland Health Services Cost Review Commission ("Commission" or "HSCRC")

JHH, JHBMC, HCGH, and SHI charges are subject to review and approval by the Commission. The Affiliates' management has filed the required forms with the Commission and believes the Affiliates are in compliance with Commission requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an agreement between the Center for Medicare and Medicaid Services and the Commission. Management believes that this program will remain in effect at least through June 30, 2011. Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges and JHH, JHBMC, HCGH and SHI 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.

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 increase 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. For this capital project, CON approval is a condition required by the HSCRC.

Effective July 1, 2008, the HSCRC 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. This methodology is primarily focused on ambulatory surgery procedures, medical clinic visits and emergency room visits. Effective July 1, 2009, the CPV methodology was expanded to include other types of outpatient services including infusion procedures, therapies, mental health and major radiology procedures. 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 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 services. Under the Commission rate methodology, amounts collected for services to patients under the Medicare and Medicaid programs are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount on prompt payment of claims.

13. Professional and General Liability Insurance

The University and JHHS and 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 the University each have a 10% ownership interest in the RRG and the captive insurance company, which is included in investments on the Combined 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 range between $1.0 million and $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 using 2.00% and 3.00% as of June 30, 2010 and 2009, respectively.

Professional and general liability insurance expense incurred by JHHS and Affiliates was $34.6 million and $37.2 million for the years ended June 30, 2010 and 2009, respectively. Reserves were $56.0 million and $55.3 million as of June 30, 2010 and 2009, respectively.

14. Related Party Transactions

During the years ended June 30, 2010 and 2009, JHHS and its Affiliates engaged in various related party transactions. These transactions were not eliminated because these entities are not consolidated. There were no significant intercompany profits that were eliminated. The following is a summary of the significant related party transactions and balances for the year ended June 30:

Revenue/(expense) transactions (in thousands):

	2010	2009
Cost recoveries for fringe benefits and various support services from JHHCG	$ 12,642	$ 10,551
Security and management of housekeeping and parking garage services from BSI	19,020	18,394
Telecommunication services provided by JHMI Utilities	(26,540)	(24,766)

Due from/(to) related party balances as of June 30 (in thousands)

	2010	2009
Due to JHHCG	$ (1,013)	$ (1,912)
Due from (to) JHMI Utilities	529	(461)
Due (to) from JHI	(961)	1,545
Due from others	5,748	5,494

15. Contracts, Commitments and Contingencies

JHHS and Affiliates
JHHS has guaranteed $1 4 million of the Dome Corporation debt

JHHS has made an indirect guarantee with the University in connection with debt issued by the East Baltimore Development Inc ("EBDI") EBDI entered into two loan commitments for $15 0 million, and $3 9 million, respectively In connection with the terms of the loan, the Annie E Casey Foundation ("the Foundation") guaranteed the loans To mitigate the risks associated with this guarantee, the Foundation solicited other guarantors The University signed an agreement to participate and provide a guarantee to the Foundation for repayment up to 25% of the principal amount of the loans The University guarantee was structured such that any payment that might be triggered by this guarantee is not due for 10 years from the initial close of the loans In the event that the University would be called to fulfill its guarantee, there is reasonable likelihood that JHHS would share in 50% of any payments made by the University

JHHS has agreements with the University, under which the University provides medical administration and educational services, conducts medical research programs, provides patient care medical services, and provides certain other administrative and technical support services through the physicians employed by The Johns Hopkins University School of Medicine ("JHUSOM") Compensation for providing medical administration and educational services is paid to the University by JHHS, funding for services in conducting medical research is paid from grant funds and by JHHS, compensation for patient care medical care services is derived from billings to patients (or third-party payors) by the University, and compensation for other support services is paid to the University by JHHS

The aggregate amount of purchased services incurred by JHHS under these agreements was $233 4 million and $224 0 million for the years ended June 30, 2010 and 2009, respectively

JHHS has an agreement with the University under which the University recruits and pays interns and resident physicians who furnish services to JHHS on a rotating basis Included in supplies and other expenses in the accompanying Combined Statements of Operations and Changes in Net Assets for services under this agreement is $4 8 million and $4 6 million for the years ended June 30, 2010 and 2009, respectively for physicians providing services on a rotating basis and $3 6 million for the years ended June 30, 2010 and 2009, for physicians providing services on a non-rotating basis

JHHS provides departmental support for Chiefs of Service based on personal recruitment agreements between JHHS, JHUSOM and the respective Chief of Service These commitments to the department are conditional to the extent the Chief of Service remains in the position Future expected payments related to agreements currently in place were $3 9 million and $4 9 million as of June 30, 2010 and 2009, respectively

JHHS is leasing space to the University for which payments totaled $4.3 million for the year ended June 30, 2010 and 2009.

JHH had non-cancellable commitments under construction contracts of $268.3 million and $351.1 million as of June 30, 2010 and 2009, respectively, relating primarily to its campus redevelopment plan 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 related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year (in thousands).

2011	$ 19,798
2012	15,064
2013	13,296
2014	11,837
2015	8,976

Rental expense for all operating leases for the years ended June 30, 2010 and 2009 amounted to $37.1 million and $34.6 million, respectively.

Asset Retirement Obligations

During 2006, JHHS recorded asset retirement obligations associated with the abatement of asbestos in several of its buildings constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2010 and 2009 was $18.0 million and $17.5 million, respectively.

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

	2010	2009
Retirement obligation at beginning of year	$ 17,476	$ 17,256
Liabilities settled	(90)	(366)
Accretion expense	584	586
Retirement obligation at end of year	$ 17,970	$ 17,476

The Johns Hopkins Hospital

In order to upgrade their management information systems and to purchase medical equipment, JHH authorized MHHEFA to issue $80.0 million in revenue bonds in 1999. MHHEFA uses the bond proceeds to purchase the management information systems and medical equipment from 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 term of the leases are short-term, 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 MHHEFA. These leases meet the criteria of operating leases, and are therefore charged to operations as incurred. As funds become available with the payment of bond principal, JHH will request MHHEFA to add additional schedules to the master lease. As of June 30, 2010 and 2009, the principal on outstanding leases was $2.8 million and $4.5 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 the University have guaranteed the total debt issued by MHHEFA. As of June 30, 2010, the amount of the debt guarantee by JHH was $50.5 million.

JHH has pledged investments having an aggregate market value of $23.7 million as of June 30, 2010 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 Combined Balance Sheet.

Department of Defense Agreement - MSC
Commencing June 1, 1998, and renewed on June 1, 2003 and again on June 1, 2008, JHMSC entered into a contract with the Department of Defense to provide the TRICARE Prime benefit to eligible beneficiaries enrolled in the Johns Hopkins Uniformed Services Family Health Plan ("USFHP"). Under the USFHP contract, JHMSC provides services covered under the TRICARE Designated Provider Contract to enrollees for a monthly capitation fee. The current sole source commercial contract was awarded for an initial period commencing October 1, 2008 through September 30, 2009, with four on-year option periods to be exercised at the Government's discretion. Two of the option periods have been exercised and, accordingly, the current contract covers the initial period through September 30, 2011.

16. Functional Expenses

JHHS 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):

	2010	2009
Health care services	$2,796,199	$2,601,667
General and administrative services	580,912	573,556
Fundraising	1,314	1,059
Total expenses	$3,378,425	$3,176,282

17. 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. 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 Board of Trustees may, in its discretion, award funds from the Endowment Corporation to organizations other than JHHS if the Board of Trustees determines that doing so is for the support, benefit of, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the combined financial statements of JHHS and its Affiliates until they are subsequently distributed to JHHS and its affiliates from the Endowment Corporation. The Endowment Corporation's net assets were $466.1 million and $424.3 million as of June 30, 2010 and 2009, respectively. The Endowment Corporation's distributions from net assets to JHHS and its affiliates were $10.7 million and $9.5 million for the years ended June 30, 2010 and 2009, respectively, and were recorded as other revenue.

18. Howard Hospital Foundation, Inc.

Funds for the benefit of HCGH are owned, held and managed by Howard Hospital Foundation, Inc. ("HHF"), a separate, not-for-profit Maryland corporation chartered in 1976. The affairs of HHF are managed by a Board of Trustees who are self-perpetuating. HCGH records an interest in net assets of HHF resulting from unrestricted, temporarily restricted and permanently restricted contributions that were solicited and held by HHF to be used exclusively for HCGH.

Interest in net assets of HHF of $13.9 million and $13.2 million as of June 30, 2010 and 2009, respectively, are presented within the assets whose use is limited on the Combined Balance Sheets of JHHS.

HHF assets consist of cash and cash equivalents of $687 thousand and $400 thousand, marketable securities of $6.7 million and $6.0 million, and other assets of $6.8 million as of June 30, 2010 and 2009.

Liabilities of HHF were $212 thousand and $197 thousand and net assets were $13.9 million and $13.2 million as of June 30, 2010 and 2009, respectively. The change in net assets were $700 thousand and ($300) thousand for the years ended June 30, 2010 and 2009, respectively.

19. Subsequent Events

JHHS has performed an evaluation of subsequent events through September 29, 2010, which is the date the financial statements were issued.