THE JOHNS HOPKINS HOSPITAL

Financial Statements
June 30, 2010 and 2009

THE JOHNS HOPKINS HOSPITAL

INDEX

	Page(s)
Financial Statements:	
Report of Independent Auditors	1
Balance Sheets	2-3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-39

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
100 East Pratt Street
Suite 1900
Baltimore MD 21202-1096
Telephone (410) 783 7600
Facsimile (410) 783 7680

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
The Johns Hopkins Hospital:

In our opinion, the accompanying balance sheets and the related statements of operations and changes in net assets and cash flows present fairly, in all material respects, the financial position of The Johns Hopkins Hospital ("JHH") at June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of JHH's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

September 29, 2010

THE JOHNS HOPKINS HOSPITAL
BALANCE SHEETS
June 30, 2010 and 2009
(in thousands)

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$252,389	$223,193
Short-term investments	86,885	41,714
Assets whose use is limited for current liabilities	9,370	-
Patient accounts receivable, net of estimated uncollectibles of $49,696 and $58,079 at June 30, 2010 and 2009, respectively	125,820	155,017
Due from others	17,539	7,433
Due from affiliates - current portion	3,656	2,033
Inventories of supplies	35,011	37,158
Prepaid expenses and other current assets	5,142	4,518
Total current assets	535,812	471,066
Assets whose use is limited, net of current		
By donors or grantors for:		
Future campus development	74,969	167,412
Pledges receivable	23,831	58,421
By Board of Trustees	65,402	63,062
Malpractice funding arrangement	3,944	3,793
Other	4,798	7,660
Total assets whose use is limited, net of current	172,944	300,348
Investments	381,454	189,655
Property, plant and equipment	1,703,948	1,600,020
Less: accumulated depreciation and amortization	(530,107)	(588,657)
Total property, plant and equipment, net	1,173,841	1,011,363
Due from affiliates, net of current portion	65,894	49,370
Net pension asset	-	3,076
Other assets	4,848	3,005
Total assets	$ 2,334,793	$ 2,027,883

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

THE JOHNS HOPKINS HOSPITAL
BALANCE SHEETS, continued
June 30, 2010 and 2009
(in thousands)

	2010	2009
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 13,415	$ 69,645
Accounts payable and accrued liabilities	168,930	184,880
Accrued vacation	16,509	15,159
Due to affiliates	7,223	14,319
Advances from third-party payors	73,064	57,371
Current portion of estimated malpractice costs	2,317	2,252
Total current liabilities	281,458	343,626
Long-term debt, net of current portion	763,969	560,724
Estimated malpractice costs, net of current portion	36,305	35,289
Net pension liability	172,211	133,814
Other long-term liabilities	149,578	117,847
Total liabilities	1,403,521	1,191,300
Net assets:		
Unrestricted	532,768	379,874
Temporarily restricted	398,504	456,709
Total net assets	931,272	836,583
Total liabilities and net assets	$ 2,334,793	$ 2,027,883

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

THE JOHNS HOPKINS HOSPITAL
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Operating revenues:		
Net patient service revenue	$ 1,544,364	$ 1,500,801
Other revenue	121,995	110,536
Investment income	10,912	12,636
Net assets released from restrictions used for operations	199	45
Total operating revenues	1,677,470	1,624,018
Operating expenses:		
Salaries, wages and benefits	648,002	611,368
Purchased services	469,357	472,716
Supplies and other	338,350	320,484
Interest	10,819	11,064
Provision for bad debts	46,139	70,114
Depreciation and amortization	65,432	54,980
Total operating expenses	1,578,099	1,540,726
Income from operations	99,371	83,292
Non-operating revenues and expenses:		
Interest expense on swap agreements	(19,115)	(15,392)
Loss on market value of swap agreements	(32,290)	(47,401)
Realized / Unrealized gains (losses) on investments	2,717	(13,565)
Excess of revenues over expenses	50,683	6,934
Contributions from affiliates	45,720	73,725
Unrealized gains (losses) on investments	7,659	(2,965)
Change in funded status of defined benefit plans	(40,248)	(166,906)
Net assets released from restrictions used for purchases of property and equipment	89,080	3,488
Increase (decrease) in unrestricted net assets	152,894	(85,724)
Changes in temporarily restricted net assets:		
Gifts, grants and bequests	31,074	44,186
Net assets released from restrictions used for purchase of property, plant and equipment	(89,080)	(3,488)
Net assets released from restrictions used for operations	(199)	(45)
(Decrease) increase in temporarily restricted net assets	(58,205)	40,653
Increase (decrease) in net assets	94,689	(45,071)
Net assets at beginning of year	836,583	881,654
Net assets at end of year	$ 931,272	$ 836,583

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

THE JOHNS HOPKINS HOSPITAL
STATEMENTS OF CASH FLOWS
for the years ended June 30, 2010 and 2009
(in thousands)

	2010	2009
Operating activities:		
Change in net assets	$ 94,689	$ (45,071)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation, amortization, and accretion	70,574	59,290
Provisions for bad debts	46,139	70,114
Net realized and unrealized (gains) losses on investments	(10,395)	13,992
Loss on swap agreements	32,290	47,401
Change in funded status of defined benefit plans	40,248	166,906
Restricted contributions and investment income received	(65,645)	(54,783)
Contributions from affiliates	(45,720)	(73,725)
Changes in assets and liabilities:		
Patient receivable and due from others	(27,049)	(63,992)
Inventories of supplies, prepaid expenses and other current assets	1,523	(2,680)
Due (to) from affiliates	(25,243)	(50,886)
Pledges receivable	34,590	17,666
Other assets	(1,747)	(4,795)
Accounts payable, accrued liabilities and accrued vacation	2,483	9,561
Advances from third-party payors	15,693	(638)
Accrued pension benefit costs	1,382	(6,698)
Other long-term liabilities	(559)	(1,285)
Estimated malpractice costs	1,081	1,907
Net cash and cash equivlalents provided by operating activities	164,334	82,284
Investing activities:		
Purchases of property, plant, and equipment	(245,356)	(302,679)
Purchases of investment securities	(1,069,534)	(984,514)
Sales of investment securities	926,032	1,040,084
Net cash and cash equivalents used in investing activities	(388,858)	(247,109)
Financing activities:		
Proceeds from restricted contributions and investment income received	65,645	54,783
Proceeds from long-term borrowing	150,000	15,000
Repayment of long-term debt	(7,645)	(22,095)
Contributions from affiliates	45,720	73,725
Change in advances to affiliates	-	307
Net cash and cash equivlalents provided by financing activities	253,720	121,720
Increase (decrease) in cash and cash equivalents	29,196	(43,105)
Cash and cash equivalents at beginning of year	223,193	266,298
Cash and cash equivalents at end of year	$ 252,389	$ 223,193
Supplemental disclosure of noncash transactions		
Construction costs incurred but not paid	$ 34,525	$ 51,779

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

1. Organization and Summary of Significant Accounting Policies:

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

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

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

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

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

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

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

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

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

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

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

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

Investment income earned on cash balances (interest and dividends) is reported in the operating income section of the Statements of Operations and Changes in Net Assets under "Investment income". Realized gains or losses related to the sale of investments, other than temporary impairments, and unrealized gains or losses on alternative investments are included in the non- operating section of the Statement of Operations and Changes in Net Assets included in excess of

revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments other than alternative investments are excluded from excess of revenues over expenses.

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

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

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

project is in phases, only those costs incurred which further the development of the project will be capitalized. Costs incurred to maintain the system are expensed.

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

Impairment of long-lived assets. Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. JHH's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairment charges for the years ended June 30, 2010 and 2009.

Financing expenses. Financing expenses incurred in connection with the issuance by the Maryland Health and Higher Educational Facilities Authority ("MHHEFA") of long-term debt have been capitalized and are included in other assets in the amounts of $1.9 million for the year ended June 30, 2010. There were no financing expenses incurred in the year ended June 30, 2009. These expenses are being amortized over the term of the related bond issues using the effective interest method. Amortization expense of $126 thousand and $118 thousand was recorded in the years ended June 30, 2010 and 2009, respectively.

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

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

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

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

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

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

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

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

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

FASB's guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. This guidance defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits. This guidance also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. JHH has adopted this guidance, and there was no impact on its financial statements during the years ended June 30, 2010 and 2009.

2. Net Patient Service Revenue:

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

Contractual adjustments to patient service revenue were $159.8 million and $100.5 million for the years ended June 30, 2010 and 2009, respectively.

JHH has a policy of providing care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Such patients are identified based on information obtained from the patient and subsequent analysis. Because JHH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges for these services, measured at JHH's established rates, amounted to $23.6 million and $37.0 million for the years ended June 30, 2010 and 2009, respectively.

Patient accounts receivable as of June 30 consisted of the following:

	2010	2009
Medicare Program	20%	24%
Blue Cross and Blue Shield of Maryland	17%	17%
Health Maintenance Organizations	15%	15%
Commercial	12%	12%
Medicaid Program	11%	8%
Medicaid Managed Care Organizations	10%	9%
Other self-pay and third party-payors	15%	15%

3. Pledges Receivable:

As of June 30, 2010 and 2009, the total value of pledges receivable was $26.1 million and $62.5 million. These amounts have been discounted at rates ranging from 1.8% to 6.0% and consist of the following (in thousands):

	2010			
	1 Year	2-5 Years	5 Yrs or greater	Totals
Cancer center capital campaign	$ 0	$ 3,193	$ 0	$ 3,193
Future campus development	4,614	15,666	358	20,638
	$ 4,614	$ 18,859	$ 358	$ 23,831

	2009			
	1 Year	2-5 Years	5 Yrs or greater	Totals
Cancer center capital campaign	$ 0	$ 3,008	$ 0	$ 3,008
Future campus development	27,781	26,527	1,105	55,413
	$ 27,781	$ 29,535	$ 1,105	$ 58,421

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

4. Fair Value Measurements:

FASB's guidance on the fair value option for financial assets and financial liabilities permits companies to choose to measure many financial assets and liabilities, and certain other items at fair value. This guidance requires a company to record unrealized gains and losses on items for which the fair value option has been elected in excess of revenues over expenses. The fair value option may be applied on an instrument by instrument basis. Once elected, the fair value option is irrevocable for that instrument. The fair value option can be applied only to entire instruments and not to portions thereof. This guidance was effective for fiscal years beginning after November 15, 2007. JHH did not elect fair value accounting for any asset or liability that was not currently required to be measured at fair value.

JHH follows the guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements. Adopting this guidance did not have a material impact on JHHs' financial position and results of operations.

This guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date.

The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring level 3 classification at June 30, 2010 or June 30, 2009.

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 (in thousands):

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 131,629	$ -	$ 131,629
U.S. treasury notes (2)	107,309	-	107,309
Corporate bonds (2)	210,723	-	210,723
Mortgage backed securities (2)	150,259	-	150,259
Equity index funds (3)	53,363	-	53,363
Totals	$ 653,283	$ -	$ 653,283
Liabilities			
Interest rate swap agreement (4)	$ 123,303	$ -	$ 123,303

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

Assets	Total Fair Value	Level 1	Level 2
Cash equivalents (1)	$ 258,544	$ 41,032	$ 217,512
U.S. treasury notes (2)	47,771	-	47,771
Corporate bonds (2)	153,143	-	153,143
Mortgage backed securities (2)	105,791	-	105,791
Equity index funds (3)	37,199	-	37,199
Totals	$ 602,448	$ 41,032	$ 561,416
Liabilities			
Interest rate swap agreement (4)	$ 91,012	$ -	$ 91,012

(1) Cash equivalents include investments with original maturities of three months or less. These investments are carried at amortized cost, which approximates fair value. Computed prices and frequent evaluation versus market value render these investments level 2. All other cash equivalents are rendered level 1.

(2) For investments in U.S. treasury notes and bonds, 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. There were no securities deemed to be other than temporarily impaired during the year ended June 30, 2010 and one such security was deemed to be other than temporarily impaired during the year ended June 30, 2009 and a realized loss of $5.8 million was recorded.

(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. These funds are valued regularly within each month utilizing trust NAV per unit and are rendered level 2.

(4) 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 7.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while JHH believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value as of the reporting date. JHH holds alternative investments which are accounted for on the equity method of accounting which approximates fair value, that are not traded on national exchanges or over-the counter markets. JHH is provided a net asset value per share for these alternative investments that has been calculated in accordance investment company rules, which among other requirements, indicates that the underlying investments be measured at fair value. There are no unfunded commitments related to JHH's alternative investments.

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

Description	Market Value	Liquidity	Notice Period	Receipt of Proceeds
Global asset allocation	$36,393	Monthly/manager's discretion	5 days	15-30 days
Fund of funds	$10,254	Monthly	30 days	30 days

The estimated total fair value of long-term debt based on quoted market prices for the same or similar issues, was $802.9 million and $637.0 million as of June 30, 2010 and 2009, respectively.

5. Investments and Assets Whose Use is Limited:

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

	2010		2009	
	Cost	Market	Cost	Market
U S treasury notes	$ 73,276	$ 77,711	$ 16,817	$ 19,795
Corporate bonds	149,904	156,456	60,038	68,511
Mortgage backed securities	109,411	115,638	38,358	45,346
Equity Index funds	58,740	51,938	47,305	37,199
Alternative investments	50,386	46,634	50,032	42,733
Equity investments	19,962	19,962	17,785	17,785
	$461,679	$468,339	$230,335	$231,369

Included in investments as of June 30, 2010 and 2009 are $351.4 million and $139.4 million, respectively, of investments pooled together with other JHH affiliates.

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

	2010		2009	
	Cost	Market	Cost	Market
Cash and cash equivalents	$ 31,521	$ 31,521	$ 55,248	$ 55,248
U S treasury notes	28,916	29,598	28,871	29,603
Mortgage backed securities	33,720	34,621	60,621	62,237
Corporate bonds	53,800	54,267	88,130	87,053
Equity Index funds	1,422	1,425	1,795	1,594
Beneficial Interest Remainder Trust	6,275	6,275	5,295	5,295
Alternative Investments	735	776	819	897
Pledges receivable	23,831	23,831	58,421	58,421
	$180,220	$182,314	$299,200	$300,348

Included in assets whose use is limited as of June 30, 2010 and 2009 are $65.1 million and $157.1 million, respectively, of investments pooled together with other JHH affiliates.

During 2009 JHH recorded the gift of a $4.5 million charitable remainder trust. This non-cash contribution is included in temporarily restricted gifts, grants and bequests in the Statements of Operations and Changes in Net Assets.

The following tables show the unrealized losses and fair value of JHH's investments and assets whose use is limited with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of June 30, 2010 and 2009 (in thousands):

	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	$ 15,871	$ 109	$ -	$ -	$ 15,871	$ 109
Corporate bonds	28,041	188	1,663	40	29,704	228
Mortgage backed securities	10,797	143	1,854	2	12,651	145
Alternative investments	-	-	42,764	4,212	42,764	4,212
Equity index funds	6,016	40	34,376	7,556	40,392	7,596
Total	$ 60,725	$ 480	$ 80,657	$ 11,810	$ 141,382	$ 12,290

	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	$ 48,656	$ 133	$ -	$ -	$ 48,656	$ 133
Corporate bonds	2,512	15	17,285	506	19,797	521
Mortgage backed securities	13,595	77	282	11	13,877	88
Alternative investments	19,278	3,388	19,766	4,312	39,044	7,700
Equity index funds	-	-	30,339	10,827	30,339	10,827
Total	$ 84,041	$ 3,613	$ 67,672	$ 15,656	$ 151,713	$ 19,269

There were 37 and 39 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, JHH does not have the intent or requirement to sell them; therefore, JHH does not consider these investments to be other-than-temporarily impaired as of June 30, 2010 and 2009. The equity index funds are broad based and have fluctuated between an unrealized gain or loss position since acquisition and based on management's impairment policy, JHH does not consider these investments to be other-than-temporarily impaired as of June 30, 2010 and 2009.

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

	2010	2009
Realized losses on investments	$ (827)	$(4,579)
Unrealized gains (losses) on alternative investments	3,544	(8,986)
Total	$ 2,717	($13,565)

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

Entity	Cost/ Equity	%	2010	2009
JHMI Utilities, LLC	Equity	50.0%	$ 3,737	$ 2,578
MCIC Bermuda	Cost	10.0%	15,150	14,132
MCIC Vermont	Cost	10.0%	1,000	1,000
Other	Cost	-	75	75
			$19,962	$17,785

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	Cost	Accumulated Depreciation
Land and land improvements	$ 13,387	$ 3,521	$ 13,245	$ 6,014
Buildings and improvements	432,699	191,644	405,887	189,024
Fixed and moveable equipment	515,659	319,901	539,545	380,905
Construction in-progress	698,906	-	602,536	-
Capitalized software	43,297	15,041	38,807	12,714
	$1,703,948	$530,107	$1,600,020	$588,657

Accruals for purchases of property, plant and equipment as of June 30, 2010 amounted to $34.5 million and are included in accounts payable and accrued liabilities in the Balance Sheet. Depreciation expense for the years ended June 30, 2010 and 2009 amounted to $60.4 million and $52.1 million, respectively. Amortization expense for the years ended June 30, 2010 and 2009 amounted to $5.0 million and $2.9 million, respectively.

JHH and The Johns Hopkins University ("JHU") share various facilities, equipment and services. The costs related to these facilities, equipment and services are generally paid for in their entirety by one institution. Under the provisions of a Joint Administrative Agreement and a lease agreement between JHH and JHU, these costs are allocated to both institutions on the basis of usage. JHU leases approximately 25.9% and 26.7% of the net square footage within JHH's buildings at June 30, 2010 and 2009, respectively. During the year ended June 30, 2010, JHH retired long-lived assets determined to have no future value and a zero book value. The original cost and corresponding accumulated depreciation of these long-lived assets was $124.2 million. No proceeds from retirement were received.

7. 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				
1990 Series--Revenue Bonds	$ 9,370	$ 59,753	$ -	$ 64,323
2001 Series-Revenue Bonds - 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 - Commercial Paper Series A	1,450	54,625	5,180	56,075
2004 - Commercial Paper Series C	-	60,000	40,000	20,000
2007 - Commercial Paper Series D	-	40,000	22,000	18,000
2008 - Commercial Paper Series E	-	84,100	-	84,100
2008 – Commercial Paper Series F	-	84,550	-	84,550
2008 Series Revenue Bonds – including premium of $4,958 and $5,109 as of June 30, 2010 and 2009, respectively	-	149,697	-	149,848
2010 Series Revenue Bonds -- including net original issue premium of $1,805 at June 30, 2010	-	150,000	-	-
	$13,415	$763,969	$69,645	$560,724

1990 Series--Revenue Bonds

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

The bonds outstanding consist of Capital Appreciation Bonds. Interest on the Capital Appreciation Bonds accrues from the date of delivery, is compounded semi-annually on each July 1, and January 1, and is to be paid at maturity or redemption. Serial Capital Appreciation Bonds of $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 2010 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 in the amount of $9.4 million are due on July 1, 2016 through 2019.

2001 Series - Revenue Bonds

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 Commercial Paper Revenue Notes – Series A

The Series A Notes pay interest as the notes mature at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging from 1 to 270 days. The rates for the years ended June 30, 2010 and 2009 were approximately .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, N.A. to provide for payment of such commercial paper at maturity, subject to certain conditions described therein. This agreement expires on October 31, 2011, 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 C

The Series C Notes pay interest as the notes mature at a variable rate based on the commercial paper sold by a designated re-marketing agent for terms ranging

from 1 to 270 days. The rates for the years ended June 30, 2010 and 2009 were approximately .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 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, $40.0 million of commercial paper notes that were scheduled for remarketing during the period July 1 through July 6, 2009 have been reclassified as short-term in the June 30, 2009 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

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 .66% and 1.47%.

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. 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 have been reclassified as short-term in the June 30, 2009 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. Notes are due May 15, 2038 and pay interest as they mature at a variable rate based on the commercial paper sold by a designated remarketing agent for terms ranging from 1 to 270 days. The interest rates for the years ended June 30, 2010 and 2009 were approximately .32% and 1.18% for the Series E notes and .33% and 1.21% for the Series F notes, respectively.

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

Amounts advanced under the line of credit agreements bear interest at the prime rate for the first 90 days outstanding and the prime rate plus 1.00% thereafter. The advances are repayable on the earliest date that is 366 days from the date of the advance or the date of receipt by JHH of proceeds of subsequent issuances of notes in excess of the principal of notes maturing or the expiration date. No amounts were outstanding as of June 30, 2010.

2008 Series Revenue Bonds

In June 2008 JHH issued $144.7 million of Revenue Bonds to finance construction of two new clinical care buildings. The bonds are term bonds that were sold in three tranches of approximately $48.2 million each that have final maturities in 2042, 2046 and 2048. The payment terms require sinking fund deposits in 2036 through 2048 in amounts ranging from $2.3 million to $20.2 million. The interest rates on the bonds are based on initial term rate periods of three, five and seven years and currently range between 3.65% and 5.0%.

Interest is payable semi-annually. At the end of these initial periods the interest rate on each tranch 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.

2010 Series Revenue Bonds

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

Derivative Financial Instruments:

JHH's primary objective for holding derivative financial instruments is to manage interest rate risk. Derivative financial instruments are recorded at fair value and are included in other long-term liabilities. The total notional amount of interest rate swap agreements was $524.7 million and $529.9 million as of June 30, 2010 and 2009, respectively.

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

The value of interest rate swap agreements entered into by JHH are adjusted to market value monthly at the close of each accounting period based upon quotations from market makers. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates. JHH does not

hold derivative instruments for the purpose of managing credit risk and limits the amount of credit exposure to any one counterparty and enters into derivative transactions with high quality counterparties. JHH recognizes gains and losses from changes in fair values of interest rate swap agreements as a non-operating revenue or expense within the performance indicator excess of revenues over expenses on the Statement of Operations.

Each swap agreement has certain collateral thresholds whereby, on a daily basis, if the market value of the swap agreement declines such that its devaluation exceeds the threshold, cash must be deposited by JHHS with the swap counterparty for the difference between the threshold amount and the market value. At June 30, 2010 and 2009, the amount of required collateral was $65.3 million and $48.5 million, respectively. JHH has funded the collateral payments to JHHS. JHHS makes the deposits to the counterparty. JHH has included the collateral funding in the balance of due from affiliates, net of current portion in the balance sheet.

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	$ (123,303)	Other long-term liabilities	(91,012)

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:		
Loss on market value of swap agreements	$32,290	$ 47,401

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

In January 2004 in connection with the issuance of the 2004 Commercial Paper Revenue Notes Series A, JHH entered into a fixed payor interest swap agreement with J.P. Morgan. The notional amount on this swap agreement is $56.1 million and $61.3 million as of June 30, 2010 and 2009, respectively. JHH

pays J.P. Morgan a fixed annual rate of 3.329% on the outstanding loan value of the 2004 Series A Notes in return for the receipt of a floating rate of interest equal to 67% of the one Month LIBOR rate. The floating rate payments from this interest rate swap agreement are intended to substantially offset the floating rate of the Series A Notes. The change in market value of this swap agreement is recorded in JHH's Statements of Operations and Changes in Net Assets. The floating rates as of June 30, 2010 and 2009 were 0.23% and 0.21%, respectively.

In April 2006, JHH entered into two forward start fixed payor swap agreements with Goldman Sachs Capital Markets, L.P. ("GSCM"). The notional amount on these swap agreements is $150 million each. Payments under the first of these swap agreements began May 1, 2007 and payments under the second agreement began May 1, 2008. These agreements carry a term of 32 years. JHH pays GSCM a fixed annual rate of 3.911% on the notional value of the swap agreement in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. Under the second swap agreement JHH pays GSCM a fixed annual rate of 3.922% on the $150.0 million notional value in return for the receipt of a floating rate of interest equal to 67% of the one month LIBOR rate. The floating rates as of June 30, 2010 and 2009 were 0.23% and 0.21%, respectively.

In July 2007, JHH entered into two additional fixed payor interest rate swap agreements. One with GSCM in a notional amount of $84.1 million and another with Merrill Lynch Capital Services ("MLCS") in a notional amount of $84.6 million. JHH will pay GSCM a fixed annual rate of 3.819% and will pay MLCS a fixed annual rate of 3.8091% on the outstanding loan values in return for the receipt of a floating rate of interest equal to 67% of the one-month LIBOR rate. The floating rate payment from these interest rate swap agreements are intended to substantially offset the floating rate of the 2008 Commercial Paper Notes Series E and Series F. The floating rates as of June 30, 2010 and 2009 were 0.23% and 0.21%, respectively.

Obligated Group

The Johns Hopkins Health System's Obligated Group ("JHHS Obligated Group") consists of JHH, Johns Hopkins Bayview Medical Center, Inc., ("JHBMC"), Suburban Hospital Healthcare System, Inc. ("SHHS") and Suburban Hospital, Inc. ("SHI"). JHBMC was admitted into the JHHS Obligated Group in 2004 as part of a plan of debt refinancing. SHHS and SHI were admitted into the JHHS Obligated Group in 2010 as part of the JHH 2010 Series Revenue Bonds issuance. All JHH debt, the 2004 JHBMC Commercial Paper Series B, JHBMC 2008 Variable Rate Demand Bonds Series A, JHBMC Pooled Loan Program Issue Series 1985A and 1985B debt, the SHI 2004 Series A and B Revenue Bonds and SHI 2008 Series Revenue Bonds are parity debt, and as such are

collateralized equally and ratably by a claim on and a security interest in all of JHH's, JHBMC's, SHI's and SHHS' receipts as defined in the Master Loan Agreement with MHHEFA. JHH, JHBMC, SHI and SHHS are required to achieve a defined minimum debt service coverage ratio each year, maintain adequate insurance coverage and comply with certain restrictions on their ability to incur additional debt. As of June 30, 2010 and 2009 JHH, JHBMC, SHI and SHHS are in compliance with these requirements. As of June 30, 2010 the outstanding JHBMC, SHI and SHHS parity debt was $185.8 million. As of June 30, 2009, the outstanding JHBMC parity debt was $112.3 million. In addition the obligated group has agreed to guarantee the $40.0 million principal amount of the Howard County General Hospital ("HCGH") Series 2008 debt.

In 1998 JHH and JHU each agreed to guarantee 4.5% of the HCGH Series 1998 Revenue Bonds. The total outstanding principal of the debt at June 30, 2010 and 2009 was $116.2 million and $118.6 million, respectively.

Total maturities of debt and sinking fund requirements during the next five fiscal years and thereafter are as follows as of June 30, 2010 (in thousands):

2011	$ 13,415
2012	23,240
2013	14,220
2014	23,460
2015	23,655
Thereafter	673,447
	$771,437

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

	2010	2009
Net interest costs:		
Capitalized	$ 8,281	$ 10,146
Charged to operations	29,934	26,456
	38,215	36,602
Interest costs paid	$ 32,156	$ 30,113

8. Temporarily Restricted Net Assets:

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

	2010	2009
Purchase of property, plant, and equipment	$ 396,939	$ 452,435
Patient care	1,074	3,501
Education and counseling	491	773
	$ 398,504	$ 456,709

9. Pension Plans:

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

Employees not represented by a collective bargaining agreement are covered by a contributory pension plan which provides for retirement income based on years of service, the level of contributions and the employees' compensation. Effective July 1, 1992, the option for an employee to contribute to the pension plan was discontinued. The funding policy for both plans is to make sufficient contributions to meet the Internal Revenue Service minimum funding requirements. The assets of both plans as of June 30, 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 pension plans are shown below (in thousands):

	2010	2009
Change in benefit obligation		
Benefit obligation as of beginning of year	$509,765	$475,350
Service cost	20,944	19,340
Interest cost	35,706	34,227
Actuarial loss (gain)	63,271	(3,724)
Benefits paid	(15,063)	(13,724)
Amendments	0	(1,704)
Benefit obligation as of June 30	$614,623	$509,765

Change in plan assets	2010	2009
Fair value of plan assets as of beginning of year	$379,027	$504,819
Actual return on plan assets	54,217	(132,741)
Employer contribution	24,231	20,673
Benefits paid	(15,063)	(13,724)
Fair value of plan assets as of June 30	$442,412	$379,027

Funded Status as of June 30,	2010	2009
Fair value of plan assets	$442,412	$ 379,027
Projected benefit obligation	(614,623)	(509,765)
Funded status	$(172,211)	$(130,738)

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

	2010	2009
Net pension asset	$ 0	$ 3,076
Net pension liability	(172,211)	(133,814)
Net amount recognized	$(172,211)	$(130,738)

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

	2010	2009
Actuarial net loss	$301,600	$260,118
Prior service cost	4,569	5,831
	$306,169	$265,949
Accumulated benefit obligation	$529,740	$415,395

Net periodic cost

Components of net periodic pension cost (in thousands):

	2010	2009
Service cost	$ 20,944	$ 19,340
Interest cost	35,706	34,227
Expected return on plan assets	(42,764)	(45,132)
Amortization of prior service cost	1,261	1,432
Recognized net actuarial loss	10,336	4,971
Net periodic pension benefit cost	$ 25,483	$ 14,838

The actuarial net loss and prior service cost for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit costs in 2011 are $22.5 million and $1.3 million, respectively.

Assumptions

The assumptions used in determining the net periodic pension cost for the plans 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%	4.25%

The assumptions used in determining the projected pension obligations for the plans 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%	3.00% - 4.00%

The rate of compensation increase was 3.00% for July 1, 2010 and 2011, and 4.00% 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

JHH's pension plan weighted average asset allocations as of June 30, 2010 and 2009 by asset category are as follows:

Asset Category	2010	2009
Cash equivalents	4.9%	10.6%
Global asset allocation strategies	33.0%	30.6%
Equity securities	37.4%	37.8%
Debt securities	24.7%	21.0%
Total	100.0%	100.0%

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

Contributions and Estimated Future Benefit Payments (Unaudited)

JHH expects to contribute $33.2 million to its pension plan 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	$18,596
2012	20,923
2013	23,369
2014	26,193
2015	29,069
2016-2019	192,001

Fair Value of Plan Assets

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

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;

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

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)	$ 22,133	$ 0	$ 22,133
Equity funds (2)	152,451	20,914	131,537
Fixed income funds (3)	84,596	78,172	6,424
Totals	$ 259,180	$ 99,086	$ 160,094

(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 investments level 2.

(2) Equity index funds are investments in mutual funds, commingled trusts and hedge funds. 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 mutual funds are rendered level 1, the commingles trusts and hedge funds are valued regularly within each month utilizing NAV per unit and are rendered level 2.

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	$ 48,970	Monthly	5 days	15 days
Fund of funds	68,242	Monthly or quarterly	30 to 65 days	(1)
Hedge funds	9,360	Quarterly	30 days	(2)
Credit funds	19,582	Annual	30 to 90 days	(3)
Distressed credit	15,864	December 31, 2013		

(1) Within 5 days, or 90% within 30 to 60 days, 10% after annual audit
(2) 95% within 30 days, 5% after annual audit
(3) Within 30 days, or 90% within 10 days, 10% after annual audit

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

JHH's charges are subject to review and approval by the Commission. JHH management has filed the required forms with the Commission and believes JHH to be in compliance with Commission requirements. The total rate of reimbursement for services to patients under the Medicare and Medicaid programs is based on an arrangement between the Centers for Medicare and Medicaid Service and the Commission. Management believes that this program will remain in effect at least through June 30, 2011. Effective April 1, 1999, the Commission developed a methodology to control inpatient hospital charges and JHH elected to be paid under the new methodology. The methodology established a charge per admission cap for each hospital. The hospital specific charge per admission is adjusted annually to reflect cost inflation and is also adjusted for changes in the hospital's case mix index. Certain highly tertiary inpatient cases such as solid organ transplants, bone marrow transplants and certain oncology cases are treated as exclusions from the charge per case methodology. Effective July 1, 2008, the Commission developed a new methodology to establish a charge per visit (CPV) for certain types of outpatient services. The hospital specific charge per visit is adjusted annually to reflect cost inflation and is also adjusted for changes in case mix. 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.

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

The Commission approves hospital rates on a departmental unit rate basis. Individual unit rates are the basis for hospital reimbursement for inpatient excluded cases and for hospital outpatient services. Under the Commission rate

methodology, amounts collected for services to patients under Medicare and Medicaid are computed at approximately 94% of Commission approved charges. Other payors are eligible to receive up to a 2.25% discount based on prompt payment of claims.

11. Professional and General Liability Insurance:

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

JHH and JHU each have a 10% ownership interest in the RRG and the captive insurance company. This ownership interest is included in investments on the Balance Sheets. The medical institutions obtain primary and excess liability insurance coverage from commercial insurers and the RRG. The primary coverage is written by the RRG, and a portion of the risk is reinsured with the captive insurance company. Commercial excess insurance and reinsurance is purchased under a claims-made policy by the participating institutions for claims in excess of primary coverage retained by the RRG and the captive. Primary retentions are $5.0 million per incident. Primary coverage is insured under a retrospectively rated claims-made policy; premiums are accrued based upon an estimate of the ultimate cost of the experience to date of each participating member institution. The basis for loss accruals for unreported claims under the primary policy is an actuarial estimate of asserted and unasserted claims including reported and unreported incidents and includes costs associated with settling claims. Projected losses were discounted at 2.00% and 3.00% for June 30, 2010 and 2009, respectively.

Professional and general liability insurance expense incurred by JHH was $24.3 million and $25.7 million for the years ended June 30, 2010 and 2009, respectively, and are included in purchased services expense in JHH's Statements of Changes in Net Assets. Professional and general liability insurance reserves recorded in JHH's balance sheets at June 30, 2010 and 2009 were $38.6 million and $37.5 million, respectively.

12. Transactions with Related Parties:

During the years ended June 30, 2010 and 2009, JHH engaged in transactions with JHHS and its affiliates, all related parties: Johns Hopkins Bayview Medical Center, Inc. ("JHBMC"), Johns Hopkins Medical Services Corporation ("JHMSC"), Johns Hopkins Community Physicians ("JHCP"), Johns Hopkins Medical Management Corp. ("JHMMC"), Johns Hopkins Employer Health

Programs, Inc. ("EHP"), Johns Hopkins HealthCare, LLC ("JHHC"), Johns Hopkins Home Care Group, Inc ("JHHCG"), Central Maryland Heart Center, Dome Corporation, Howard County General Hospital ("HCGH"), Priority Partners Managed Care Organization, Inc. ("Priority Partners"), JHMI Utilities, LLC, and Suburban Hospital Healthcare System ("SHHS"). The following is a summary of related party transactions and balances:

Revenue/(expense) transactions (in thousands):	2010	2009
Purchasing, legal, advertising and other services provided by JHHS	$(76,264)	$(74,097)
Cost recoveries for information systems services provided to JHHS	44	100
Cost recoveries for laboratory and various services provided to JHBMC	13,203	11,274
Cost recoveries for laboratory services provided to HCGH	7,089	7,060
Cost recoveries for laboratory and various support services provided to JHCP	380	403
Contribution to JHCP for services provided by JHCP to uninsured patients	(2,688)	(2,609)
Temporary staffing services provided by JHMMC	(13,638)	(13,618)
Premiums paid to EHP for administration of health care claims	(4,958)	(4,358)
Net patient services revenue for services to patients referred by JHHC and various support services provided to JHHC	36,219	33,579
Cost recoveries for fringe benefit and various support services from JHHCG	12,642	10,971
Net patient service revenue for services to patients referred from Priority Partners	101,300	90,641
Utility and telecommunication services provided by JHMI Utilities, LLC	(24,100)	(22,216)

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

	2010	2009
Due from JHHS for services provided and funding for strategic initiatives and swap collateral	$62,241	$39,460
Due from JHBMC for laboratory and various support services	673	373
Due from JHMSC for notes receivable	920	1,227
Due to JHCP for support services	(157)	(615)
Due to JHHCG for fringe benefits and patient receivables from operation of discharge pharmacies	(1,416)	(2,177)
Due to JHHC for services to patients	(545)	(792)
Due from JHMI Utilities LLC for utility and telecommunication service costs	1,432	331
Due from HCGH for support services	600	602
Due from SHHS for support services	43	-
Other	(1,464)	(1,325)
Total	$ 62,327	$37,084

Included in the amounts due from affiliates in the accompanying Balance Sheets as of June 30, 2010 and 2009 are $0.9 million and $1.2 million, respectively, in a note receivable from JHMSC. The note receivable bears no interest with annual payments from JHMSC of $307 thousand.

Broadway Services, Inc. ("BSI"), a related organization, is a wholly-owned subsidiary of the Dome Corporation. The Dome Corporation is owned equally by JHHS and JHU. BSI provides JHH with various services including security, housekeeping, escort and transportation. During 2010 and 2009, JHH incurred costs of approximately $10.1 million and $9.6 million, respectively, for these services.

13. Contracts, Commitments and Contingencies:

JHH has agreements with JHU, under which JHU provides medical administration and educational services, patient care medical services, and certain other administrative and technical support services through the

physicians and interns employed by The Johns Hopkins University School of Medicine ("JHUSOM"). Compensation for providing medical administration, educational services and other support services is paid to JHU by JHH; compensation for patient care medical care services is derived from billings to patients (or third-party payors) by JHU. The aggregate amount of purchased services incurred by JHH under these agreements was $190.4 million and $181.0 million for the years ended June 30, 2010 and 2009, respectively.

In order to upgrade their management information systems and to purchase medical equipment, JHH authorized MHHEFA to issue $80.0 million in revenue bonds. MHHEFA uses the bond proceeds to purchase the management information systems and medical equipment for JHH. JHH has entered into a master lease pursuant to which MHHEFA leases each item to JHH in accordance with a schedule in the master lease. On each schedule, JHH makes lease payments sufficient to pay the debt service of the bonds. The leases are short-term in duration, in the range of 5 to 7 years, due to the nature of the systems being financed. Upon expiration of each schedule, JHH has the option to extend the lease, purchase the project or return the project to MHHEFA. These leases meet the criteria of operating leases, and are therefore charged to operations as incurred. As of June 30, 2010 and 2009 current principal on outstanding leases was $2.8 million and $4.5 million, respectively.

JHH had non-cancellable commitments under construction contracts of $268.3 million and $351.1 million at June 30, 2010 and 2009, respectively, relating primarily to its campus redevelopment project which includes the construction of a new Cardiovascular and Critical Care Adult Tower and a Children's Hospital.

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

The following is a schedule by year of future minimum lease payments under all operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year (in thousands).

2011	$6,450
2012	2,927
2013	2,564
2014	2,020
2015	1,923

Rental expense for all operating leases for the years ended June 30, 2010 and 2009 amounted to $13.7 million and $14.7 million, respectively.

In 2005, JHH and JHU created a Limited Liability Company (JHMI Utilities, LLC) to provide utility and telecommunication services for their East Baltimore Campus. Each member owns 50% of the LLC and shares equally in the governance of the LLC. The existing JHH utility assets have been transferred at cost to the LLC. The LLC has also assumed the liability for the JHH's 1985 Pooled Loan obligation of $8.4 million. The cost of acquiring and upgrading the existing utility facilities, the construction of a new power plant and an upgrade of the telecommunication system have been financed through the issuance of tax exempt bonds by MHHEFA and the proceeds of the Pooled Loan program sponsored by MHHEFA. JHH and JHU have guaranteed the total debt issued by MHHEFA. At June 30, 2010 the amount of debt guarantees by JHH was $50.5 million. JHH records its investment in JHMI Utility LLC under the equity method of accounting.

During the year ended June 30, 2006, JHH recorded asset retirement obligations associated with the abatement of asbestos in several buildings that were constructed prior to 1980. The fair value of the estimated asset retirement obligations as of June 30, 2010 and 2009 was $17.3 million and $16.8 million, respectively.

The change in the asset retirement obligation for the year ended June 30, 2010 consisted of the following (in thousands):

Retirement obligation at beginning of year	$ 16,812
Liabilities settled	(68)
Accretion expense	564
Retirement obligation at end of year	$17,308

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 Balance Sheet.

14. Functional Expenses:

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

	2010	2009
Health care services	$1,363,557	$1,327,264
General & administrative services	214,542	213,462
Total expenses	$1,578,099	$1,540,726

15. The Johns Hopkins Hospital Endowment Fund, Incorporated:

The Endowment Corporation was organized for the purpose of holding and managing the endowment and certain other funds transferred from and for the benefit of JHHS and affiliates. The affairs of the Endowment Corporation are managed by a Board of Trustees, comprised of Trustees who are self perpetuating. Neither JHHS nor any affiliate holds legal title to any Endowment Corporation funds. The Endowment Corporation's distributions from net assets to JHH were $7.1 million in each of the years ended June 30, 2010 and 2009 and were recorded as other revenue. The Board of Trustees may, at its own discretion, award funds from the Endowment Corporation to organizations other than JHHS or its affiliates if the Board of Trustees determines that doing so is for support, benefit, or in furtherance of the mission of JHHS. Accordingly, these amounts are not presented in the financial statement of JHH until they are subsequently distributed to JHH from the Endowment Corporation. The Endowment Corporation's net assets were $466.1 million and $424.3 million as of June 30, 2010 and 2009, respectively.

16. Subsequent Events:

Subsequent events have been evaluated by Management through September 29, 2010, which is the date the financial statements were issued.