KENNEDY KRIEGER INSTITUTE, INC. AND SUBSIDIARIES

Consolidated Financial Statements
June 30, 2011 and 2010

Report of Independent Auditors

To the Board of Directors of
Kennedy Krieger Institute, Inc. and Subsidiaries

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the consolidated financial position of Kennedy Krieger Institute, Inc. and Subsidiaries (the "Institute") as of June 30, 2011 and 2010, and the consolidated results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these consolidated 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 27, 2011

KENNEDY KRIEGER INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of June 30, 2011 and 2010
(in thousands)

ASSETS	2011	2010
Current assets:		
Cash and cash equivalents	$ 9,209	$ 12,320
Patient receivables, less allowances of $4,087 and $3,896	19,766	20,251
Grants receivable	8,037	9,491
Tuition receivable	4,524	5,619
Inventory	4,220	3,977
Pledges receivable, less allowances of $154 and $314	5,890	2,376
Assets limited as to use	2,126	2,754
Prepaid expenses and other	1,740	2,029
Total current assets	55,512	58,817
Non-current assets:		
Property and equipment, net	135,603	140,815
Board designated investments for endowment	46,482	38,703
Pledges receivable, less allowances of $460 and $310	1,976	2,316
Assets limited as to use	7,993	12,429
Other assets	2,604	4,689
Total non-current assets	194,658	198,952
Total assets	$ 250,170	$ 257,769

LIABILITIES AND NET ASSETS	2011	2010
Current liabilities:		
Accounts payable	$ 8,771	$ 7,563
Accrued expenses	23,277	23,224
Line of credit	4,604	11,770
Deferred grant revenue	2,094	3,363
Current portion of long-term debt	1,749	2,034
Total current liabilities	40,495	47,954
Long term liabilities:		
Long-term debt	77,217	79,186
Accrued pension payable	9,451	14,028
Other	6,275	7,754
Total long-term liabilities	92,943	100,968
Total liabilities	133,438	148,922
Net assets:		
Unrestricted	87,255	78,891
Temporarily restricted	29,477	29,956
Total net assets	116,732	108,847
Total liabilities and net assets	$ 250,170	$ 257,769

See accompanying notes to consolidated financial statements.

KENNEDY KRIEGER INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Operating revenues:		
Patient service revenue	$ 112,316	$ 106,937
Tuition revenue	42,755	43,384
Grant and contract revenue	40,197	40,265
Medical equipment sales, net of cost	12,584	13,157
Net assets released for operating activities	7,353	5,682
Contributions from fundraising activities, net	1,633	2,437
Other revenues	2,041	2,064
Total operating revenues	218,879	213,926
Operating expenses:		
Salaries, wages and benefits	159,869	154,103
Supplies and other	45,885	46,279
Bad debt expense	2,113	1,940
Interest	2,455	2,624
Depreciation and amortization	9,311	9,572
Total operating expenses	219,633	214,518
Operating revenues (under) operating expenses	(754)	(592)
Non-operating activity:		
Investment income and net realized gains	3,989	2,071
Unrealized loss on interest rate swap, net	(85)	(3,037)
Loss on early extinguishment of long-term debt	(2,543)	-
Other non-operating activity	100	346
Net non-operating activities	1,461	(620)
Excess of revenue over (under) expenses	707	(1,212)
Other changes in unrestricted net assets:		
Change in unrealized gains on investments, net	4,175	3,648
Net assets released from restrictions used for property and equipment	350	467
Change in funded status of defined benefit plan	3,132	(3,058)
Increase (decrease) in unrestricted net assets	$ 8,364	$ (155)

See accompanying notes to consolidated financial statements.

KENNEDY KRIEGER INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
for the years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Unrestricted net assets:		
Excess of revenue over (under) expenses	$ 707	$ (1,212)
Change in unrealized gains on investments, net	4,175	3,648
Net assets released from restrictions used		
for property and equipment	350	467
Change in funded status of defined benefit plan	3,132	(3,058)
Increase (decrease) in unrestricted net assets	8,364	(155)
Unrestricted net assets, beginning of year	78,891	79,046
Unrestricted net assets, end of year	87,255	78,891
Temporarily restricted net assets:		
Contributions from fundraising activities	8,861	2,747
Realized loss on investment	(1,637)	-
Net assets released from restrictions used for:		
Purchases of property and equipment	(350)	(467)
Operating activities	(7,353)	(5,682)
Decrease in temporarily restricted net assets	(479)	(3,402)
Temporarily restricted net assets, beginning of year	29,956	33,358
Temporarily restricted net assets, end of year	29,477	29,956
Increase (decrease) in total net assets	7,885	(3,557)
Total net assets, beginning of year	108,847	112,404
Total net assets, end of year	$ 116,732	$ 108,847

See accompanying notes to consolidated financial statements.

KENNEDY KRIEGER INSTITUTE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2011 and 2010
(in thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 7,885	$ (3,557)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Other than temporary impairment loss on investments	91	431
Change in unrealized gains on investments, net	(4,175)	(3,648)
Loss on early extinguishment of debt	2,543	-
Depreciation and Amortization	9,311	9,572
Bad debt expense	2,113	1,940
Change in pension liability	(4,577)	3,058
Unrealized (gain) loss on interest rate swap	(1,318)	2,109
Restricted contributions used for long-term purposes	(350)	(467)
Gain on sale of subsidiary	(100)	(346)
Changes in assets and liabilities:		
Patient receivables	(1,628)	(1,348)
Other receivables	(625)	(1,137)
Inventory	(243)	333
Prepaid expenses and other assets	(169)	575
Accounts payable and accrued expenses	1,105	(4,819)
Deferred grant revenue	(1,269)	1,276
Other liabilities	(342)	(1,381)
Net cash flows provided by operating activities	8,252	2,591
Cash flows from investing activities:		
Changes in assets limited to use	5,064	(1,640)
Purchase of property and equipment	(3,762)	(5,120)
Net (purchases) sales of investments	(3,695)	2,419
Proceeds from sale of subsidiary	100	400
Payments to minority shareholders	-	(54)
Net cash used in investing activities	(2,293)	(3,995)
Cash flows from financing activities:		
Payments due to refunding of bonds	(49,279)	-
Proceeds from line of credit	-	1,375
Proceeds from long-term debt	-	797
Proceeds from restricted contributions	350	467
Proceeds from issuance of bonds payable	49,610	-
Payments on line of credit	(7,166)	(300)
Payments on long-term debt	(2,585)	(1,898)
Net cash used in financing activities	(9,070)	441
Net decrease in cash and cash equivalents	(3,111)	(963)
Cash and cash equivalents, beginning of year	12,320	13,283
Cash and cash equivalents, end of year	$ 9,209	$ 12,320
Cash paid during the year for interest	$ 2,455	$ 2,624
Non-cash activity for capital leases	$ 337	$ 620

See accompanying notes to consolidated financial statements.

1. DESCRIPTION OF ORGANIZATION

Kennedy Krieger Institute, Inc. and Subsidiaries (the “Institute”) is an internationally recognized organization dedicated to improving the lives of children, adolescents and young adults through comprehensive patient care, education and research. The Institute’s primary operating segments include healthcare, research and special education.

The Healthcare segment includes a forty-five bed inpatient unit admitting more than 325 patients yearly, over fifty specialty outpatient clinics generating in excess of 130,000 annual visits and the training of over 400 healthcare professionals each year. Net patient service revenue generated through Healthcare activities represents approximately 51% and 50% of the Institute’s operating revenue in fiscal years 2011 and 2010, respectively.

Research studies conducted through Research activities are provided through over 125 government and private awards. Research grants and contract revenue represents approximately 13% and 14% of the Institute’s operating revenue in fiscal years 2011 and 2010, respectively. Approximately 82% of these revenues come from departments and agencies of the United States government. Major government sponsors included the Department of Health and Human Services, the Department of Defense and the Department of Justice.

The Special Education program operates non-public special education schools for students from kindergarten to grade eight, high school, a specialized autism program and partnership programs to public schools. Tuition and related contractual revenue generated by the Special Education segment represents approximately 20% and 21% of the Institute’s operating revenue in fiscal years 2011 and 2010, respectively.

The consolidated financial statements of the Institute reflect the accounts of the following legal corporate entities:

Kennedy Krieger Institute, Inc.
Kennedy Krieger Children’s Hospital, Inc.
Hugo W. Moser Research Institute at Kennedy Krieger, Inc.
Kennedy Krieger Education and Community Services, Inc.
PACT: Helping Children with Special Needs, Inc.
Kennedy Krieger Foundation, Inc.
Madison Street Properties, Inc.
Chesapeake Rehab Equipment, Inc.

Kennedy Krieger Institute, Inc., Kennedy Krieger Children’s Hospital, Inc., Hugo W. Moser Research Institute at Kennedy Krieger, Inc. (formerly Kennedy Krieger Research Institute, Inc.), Kennedy Krieger Education and Community Services, Inc., and PACT: Helping

Children with Special Needs, Inc. are Maryland non-stock corporations organized for charitable, scientific and educational purposes and are tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Kennedy Krieger Foundation, Inc. (the "Foundation"), is a Maryland stock corporation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Madison Street Properties, Inc. ("MSP") is a tax-exempt supporting organization under Section 509(a)(3) of the Internal Revenue Code and is wholly owned by the Foundation. All real and personal property and leasehold rights owned by the Institute are held by MSP, who in turn leases or subleases the property back to each member of the corporate family utilizing it and also provides property management services, including maintenance, security and housekeeping.

Chesapeake Rehab Equipment, Inc. ("CRE") is a 97% owned subsidiary of the Foundation which supplies wheelchairs and other specialized rehabilitation equipment in the mid-Atlantic region. Effective July 1, 2011, the Foundation sold 75% of the outstanding stock of CRE through a stock purchase agreement with ATG Holdings, Inc. The Foundation remains the owner of 25%. The transaction is further described in footnote 21, Sale of CRE.

The Institute maintains an independent affiliation with The Johns Hopkins Medical Institutions. The formal relationship between the parties is set forth in an affiliation agreement whereby (i) the medical, scientific and other professional staff of the Institute receive primary and adjunct appointments in the appropriate Johns Hopkins University Schools or departments; and (ii) each Institution's independent corporate status is retained. Goods and services are purchased and sold by each organization through arms length transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Institute have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Institute after elimination of all significant intercompany accounts and transactions.

Excess of Revenue over Expenses

The Statements of Operations include excess of revenues (under) over expenses, which is the Institute's performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include unrealized gains and losses on investments, loss on early extinguishment of long-term debt, certain pension related transactions and any assets acquired using contributions which by donor restrictions were to be used for the purpose of acquiring such assets.

Use of Estimates

The preparation of financial statements in conformity 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.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with original maturities of three months or less. These investments are carried at cost, which approximates market value. Short-term investments include money market instruments, carried at fair value.

Investments and Investment Income

The realizable value of marketable equity investments is evaluated on at least an annual basis. In the event that the cost of the investment exceeds its fair value and the decline in value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis for the investment is established. This impairment charge essentially moves unrealized losses previously recognized as a reduction to net assets to realized losses which reduces excess of revenues over expenses. Factors considered in determining other-than-temporary declines in value include the duration and extent to which the fair value has been less than cost, the ability of the investment to recover to its original cost, and the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

The Institute adopted current technical guidance on fair value measurements for investments effective July 1, 2008. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Under this guidance, fair value is defined as an exit price, representing 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. As such, fair value is a market-based measurement and should be determined based on the assumptions that market participants would use in pricing an asset or liability in a hypothetical transaction at the measurement date.

Investment income, with the exception of unrealized gains and losses, is included in excess of revenues over expenses in the Non-operating activity section. Unrealized gains and losses on all investments are shown below excess of revenues over expenses.

Allowance for Doubtful Accounts
An allowance for doubtful accounts is recorded for receivables which are anticipated to become uncollectible in future periods. Receivables deemed to be uncollectible have been written off.

Grants Receivable
Grants receivable are recorded when the Institute has satisfied grantor restrictions for its use, expenditures have been made and the receipt of funds has not occurred. Multi-year awards typically are broken into one-year segments and only the current year is recorded. Certain revenues received and costs incurred under grants and contracts with Federal and State governments for current and prior years are subject to audit and retroactive settlement.

Tuition Receivable
Tuition revenue is recognized when earned over the school term (July to June). Tuition receivable is recorded when earned tuition revenue has been billed and payment has not yet been received.

Inventory
Inventory is stated at the lower of cost or market. Cost is determined on the basis of FIFO for purchase and parts inventory or the specific identification method for custom inventory.

Pledges Receivable
Unconditional promises to give cash and other assets to the Institute are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

Pledges receivable from capital campaigns and other restricted and unrestricted donations, have been recorded net of an allowance for uncollectible pledges. The allowance against pledges receivable is estimated based on the nature and source of each pledge. Long-term pledges are recorded at their estimated present value using a risk-free rate of return.

Assets Limited as to Use
Assets limited as to use primarily include assets held by trustees under bond indenture and self-insurance trust arrangements.

Property and Equipment
Property and equipment acquisitions are recorded at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	30-40 years
Fixed Equipment	10-15 years
Furniture and Equipment	3-5 years

Equipment purchases under grants, where title to the equipment rests with the grantor, are recorded as expenditures of the grant and are not capitalized or depreciated.

Capital Leases
Capital leased assets are amortized over the shorter of their estimated useful lives or the lease term. Depreciation expense on capitalized leased assets is included in depreciation and amortization expenses in the Consolidated Statements of Operations.

Board Designated Investments for Endowment
The Board of Directors of the Institute has designated certain assets, including accumulated unrestricted gifts to serve as an endowment for the Institute. The Board may authorize the withdrawal or transfer of such amounts at any time to further the purpose of the Institute and, accordingly, such amounts are classified as unrestricted net assets. Annual investment interest, dividends and realized gains and losses from the endowment are included in investment income and realized gains (losses) on the Consolidated Statements of Operations. Unrealized gains and losses are recorded as changes in Unrestricted Net Assets.

Deferred Financing Costs
Expenses incurred related to the issuance of bonds payable have been deferred and are being amortized over the life of the bonds using the effective interest method.

Net Patient Service Revenue
Net patient service revenues are reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments potentially occurring from future audits, reviews and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as revised estimates are made and/or final settlements are determined.

Deferred Grant Revenue
Deferred grant revenue has been recorded to reflect the portion of cash received from grants awarded that have not satisfied grantor restrictions for its use. Grants awarded and receivable reflect grant awards of one year or less, therefore, deferred grant revenue is classified as a current liability.

Unrestricted and Temporarily Restricted Net Assets
Unrestricted net assets represent those net assets utilized in the operating activities of the Institute. Temporarily restricted net assets are those whose use by the Institute has been limited by donors, grantors and other contracts to a specific purpose or time period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations as net assets released

from restrictions. Temporarily restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Estimated Professional and General Liability Costs
The provision for estimated professional and general liability claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes
The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for CRE. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

Derivatives
Current technical guidance for disclosures about derivative instruments and hedging activities requires discloses on how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect the company’s financial position, financial performance, and cash flows. The use of derivatives by the Institute is generally limited to interest rate swaps.

The Institute recognizes its derivative instrument as either an asset or a liability on the balance sheet at fair value. The change in the value of this derivative is recorded as an unrealized gain or loss in the Consolidated Statements of Operations.

Pension Plans
The Institute follows current technical guidance for reporting and accounting for pension benefits provided to employees. This guidance requires recognition of the funded status of a defined benefit plan in the balance sheet as an asset or liability if the plan is over funded or underfunded, respectively. Changes in the funded status of a plan are required to be recognized in the year in which the changes occur through changes in unrestricted net assets. The guidance also requires the measurement date of the plan’s funded status to be the same as the company’s fiscal year end.

Reclassifications
Certain prior year amounts have been reclassified to conform with the current year financial statement presentation. The most significant reclassifications were related to patient service revenue and grant and contract revenue on the Consolidated Statements of Operations.

(in thousands)

3. NET PATIENT SERVICE REVENUE

The Institute has agreements with third-party payors that provide for payments to the Institute at amounts different from its established rates. Net patient service revenue is comprised of the following:

	2011	2010
Gross Inpatient Revenue	$ 46,565	$ 46,041
Less: Contractual Allowances	(8,033)	(7,760)
Net Inpatient Revenue	$38,532	$38,281
Gross Outpatient Revenue	81,466	75,095
Less: Contractual Allowances	(7,682)	(6,439)
Net Outpatient Revenue	$ 73,784	$ 68,656
Net Patient Service Revenue	$ 112,316	$ 106,937

The percentage of patient service revenue generated by payor category for the fiscal years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Medicaid	46 %	40 %
Blue Cross	19	20
Commerical	18	21
Managed Care	9	8
Self pay and other	6	9
Medicare	2	2
	100 %	100 %

A summary of the payment arrangements with major third-party payors follows.

Maryland Medicaid

Effective January 1, 2007, the Institute implemented a prospective payment system ("PPS") with Maryland Medicaid for both inpatient and outpatient services. Service-based per diem rates were developed for inpatient services which are annually adjusted by market basket update factors published by the Centers for Medicare and Medicaid Services ("CMS"). Outpatient services are reimbursed as a percentage of charges and subject to the lower of cost versus charges. Base year costs are trended forward annually using the CMS outpatient PPS market basket update factor and compared to actual charges. No retroactive settlement occurs under these arrangements.

(in thousands)

Out of State Medicaid
The Institute has entered into payment agreements with many out-of-state Medicaid Plans. The majority of these payment agreements reflect similar rates paid by Maryland Medicaid. No retroactive settlement occurs under these agreements.

Commercial Insurance
The Institute has also entered into payment agreements with commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis of payment to the Institute under these agreements includes prospectively determined rates per day or discharge, discounts from established charges and prospectively determined daily rates. No retroactive settlement occurs under these agreements.

Financial Assistance
The Institute provides services without charge to patients who meet the criteria for its financial assistance policy. The criteria for financial assistance considers the patient's or family's ability to pay at time of service. The Institute uses the Federal Poverty Guidelines to determine eligibility for free care and discounted care to low income individuals. In addition, the Institute's policy applies to patients who are medically indigent. The Institute also offers payment plan options to assist patients who experience a financial hardship paying their hospital and professional services bills.

The cost for services and supplies furnished under the Institute's financial assistance policy aggregated approximately $961 and $939 in 2011 and 2010, respectively.

4. TUITION REVENUE

Tuition revenue generated by school programs is summarized as follows:

	2011	2010
High school	$ 13,417	$ 13,938
Lower/middle school	11,595	11,933
Leap	6,536	6,664
Montgomery County	4,459	4,386
Partnership programs	6,079	5,735
PACT daycare	669	728
	$ 42,755	$ 43,384

Over 550 students are enrolled in special education programs each year and come from fourteen Maryland counties and Virginia, Pennsylvania and Washington, D.C. The percentage of tuition revenue generated by location is as follows:

(in thousands)

	2011	2010
Baltimore City, MD	27.9 %	29.2 %
Prince George's County, MD	21.3	20.0
Baltimore County, MD	16.2	14.2
Anne Arundel County, MD	7.6	9.6
Montgomery County, MD	6.5	6.5
Other MD Counties	16.5	16.8
Washington, DC	3.4	3.3
Virginia Counties	0.5	0.2
Pennsylvania Counties	0.1	0.2
Total	100.0 %	100.0 %

5. GRANT AND CONTRACT REVENUE

Grant and Contract Revenue are comprised of the following:

	2011	2010
Research	$ 29,035	$ 29,489
Community service	9,051	8,923
Training and hospital	2,111	1,853
	$ 40,197	$ 40,265

Research revenue includes all research initiatives funded through government and private sources. Community service revenue consists of services provided to individuals and families with special needs in a community-based setting and is funded through government programs. Training and hospital revenue primarily represents government funding to train professionals in the field of developmental disabilities.

Revenue is recognized as expenditures are incurred in accordance with the purpose of the grant or contract agreement. These revenues include recoveries of facility and administrative costs, with certain exclusions.

6. CONTRIBUTIONS FROM FUNDRAISING ACTIVITIES

During 2011 and 2010, the Institute recognized both restricted and unrestricted contributions from fundraising activities as summarized below:

(in thousands)

	2011	2010
Restricted contributions		
Net annual giving	$ 3,058	$ 2,657
Capital campaign	5,803	90
	$ 8,861	$ 2,747
Unrestricted contributions		
Net annual giving	$ 1,633	$ 2,437
Fundraising expenses	$ 1,152	$ 1,416

Restricted annual giving and capital campaign pledges are classified as temporarily restricted net assets on the Consolidated Balance Sheets. Temporarily restricted net assets are released through the Consolidated Statement of Operations when the asset or project is operational or placed in service and there are no other grant funds available for this purpose. Unrestricted contributions are reported on the Consolidated Statements of Operations. Fundraising expenses are reported as operating expenses. Expenses related to special events are netted with the revenue from those events.

7. INVESTMENTS AND INVESTMENT INCOME

Investments at June 30, 2011 and 2010 consist of the following:

	2011		2010	
	Cost	Market	Cost	Market
Assets limited to use				
Money market funds	2,209	2,209	2,682	2,682
Commercial paper	-	-	1,249	1,363
Government and agency funds	3,218	3,218	5,203	5,225
Multi-class asset funds	3,370	3,326	-	-
Fixed income funds	141	167	992	1,048
Equity securities and funds	2,412	1,199	4,902	4,865
Total assets limited to use	11,350	10,119	15,028	15,183
Board designated endowment				
Money market funds	1,925	1,925	623	623
Fixed income funds	11,550	12,126	10,937	11,443
Equity securities and funds	17,990	22,955	20,622	22,171
Multi-class asset funds	6,297	6,338	-	-
Absolute return fund	2,601	3,138	4,041	4,466
Total Board designated endowment	40,363	46,482	36,223	38,703
Total Investments	$ 51,713	$ 56,601	$ 51,251	$ 53,886

(in thousands)

Investments with a market value of $1,286 and $1,105 as of June 30, 2011 and 2010, respectively, have been pledged as collateral under the Institute's self-funded unemployment insurance plan.

Assets Limited As To Use

Assets limited as to use at June 30, 2011 and 2010 are made up of the following:

	2011	2010
Debt service funds	$ 2,126	$ 2,754
Debt service reserve funds	2,984	6,279
Self insurance trust fund	3,571	3,163
Planned gifts, net of reserve	436	348
Donor advised fund	1,002	2,639
Total assets limited as to use	$ 10,119	$ 15,183

Investment income and gains and losses for the above investments are comprised of the following:

	2011	2010
Investment income		
Interest and dividend income	$ 1,000	$ 989
Realized gain on investments, net	3,080	1,513
Other-than-temporary impairment loss	(91)	(431)
Total investment income, net	$ 3,989	$ 2,071
Change in net unrealized gain on investments	$ 4,175	$ 3,648

The Institute reviews investments at year-end and throughout the year to determine whether these investments are other-than-temporarily impaired. Unrealized losses which are 25% or greater than cost are evaluated for other-than-temporary impairments. Factors considered in the evaluation of these assets include the anticipated holding period, the extent and duration of below cost valuation and the current condition and outlook of the business and industry. As a result of this assessment, an other-than-temporary charge of $91 and $431 was taken in 2011 and 2010, respectively, and included with Investment income and realized gains (losses) on the Consolidated Statements of Operations.

The following table shows the gross unrealized loss and fair value of the Institute's investments with unrealized losses that are not deemed other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2011:

(in thousands)

	Less than 12 Months		12 Months or Greater		Total	
Description	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	$ 6,313	$ (136)	$ 2,801	$ (287)	$ 9,114	$ (423)

Equity securities
The Institute's portfolio of common stocks includes seventeen stocks for which there were unrealized losses at June 30, 2011. The Institute evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based upon this evaluation and the Institute's intent to hold these investments for a reasonable period of time for a forecasted recovery of fair value, the Institute does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

Board Designated Endowment
The Institute maintains certain funds as Board designated for endowment (Endowment funds). These Endowment funds are made up of unrestricted gifts and bequests and certain reserve funds. They have been set aside by the Institute's Board of Directors to fund new initiatives and other needs necessary in furtherance of the mission of the Institute and its subsidiary entities. The Board of Directors maintains the power to release the restriction on principal spending. The Endowment funds are classified within unrestricted net assets. The Institute does not maintain any permanently restricted net assets.

Endowment funds held by the Institute at June 30, 2011 and 2010 are as follows:

	2011	2010
Board Designated Endowment, beginning of year	$ 38,703	$ 35,063
Investment return:		
Unrealized gains	3,983	3,130
Realized gains	3,037	1,513
Other than temporary impairment	(91)	(431)
Investment income, net	850	778
Total investment return	7,779	4,990
Appropriation of endowment assets for expenditure	-	(1,350)
Endowment, end of year	$ 46,482	$ 38,703

The Investment Committee of the Board of Directors sets the investment policy for the Endowment fund, including investment and spending guidelines. Investments in the Endowment fund are based on the objective of achieving capital appreciation and investment income. Assets are invested in a manner that is intended to achieve an average annual real return of at least 5% over time while assuming an acceptable level of investment risk. To monitor the effectiveness of the investment strategy of Endowment funds, performance goals are established and monitored related to benchmark indices and returns earned by comparable funds.

(in thousands)

To satisfy its long-term rate of return objectives of the Endowment fund, the Institute employs a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The investment policy includes a target asset allocation that is well diversified among suitable asset classes and that is expected to generate, on average, the level of expected return necessary to meet the Endowment fund's objectives while assuming a level of risk (volatility) consistent with achieving that return.

The asset allocation of the Endowment fund at June 30, 2011 and 2010 is summarized below. The Investment Committee regularly reviews the actual asset allocation against the target and periodically rebalances the investment, as appropriate.

	Target Allocation	2011	2010
Equities	40%	49 %	57 %
Fixed income	25%	26 %	30 %
Multi-class assets	20%	14 %	-
Absolute return funds	15%	7 %	11 %
Cash	0%	4 %	2 %
		100 %	100 %

The investment policy also provides for an Endowment earning withdrawal to be used in support of operating activities, unfunded research activities, capital expenditures and new program/service development, as determined by Institute management and approved through the annual budget. The annual withdrawal is based on 4% of the three-year average market value of the portfolio, as needed. A withdrawal of $1,350 was made in 2010. No withdrawal was made in 2011.

8. FAIR VALUE MEASUREMENTS

Current guidance for fair value measurements establish a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under current guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Institute for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.

- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. During FY 2011 and 2010, the Institute did not have any transfers between levels.

The following tables present the fair value of certain investments and liabilities as of June 30, 2011 and June 30, 2010, by the valuation hierarchy defined above:

KENNEDY KRIEGER INSTITUTE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended June 30, 2011 and 2010
(in thousands)

June 30, 2011

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Money market funds	$ 4,135	$ -	$ -	$ 4,135
Equity securities and funds	19,827	3,325	-	23,152
Fixed income funds	12,293	-	-	12,293
Government securities	3,217	-	-	3,217
Multi-class asset funds	4,913	4,751	-	9,664
Absolute return fund	-	-	3,138	3,138
Privately held stock	-	-	1,002	1,002
Total Investments	$ 44,385	$ 8,076	$ 4,140	$ 56,601
Liabilities:				
Interest rate swap payable	-	5,402	-	5,402
Total Liabilities	$ -	$ 5,402	$ -	$ 5,402

June 30, 2010

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Money market funds	$ 3,305	$ -	$ -	$ 3,305
Commercial paper	-	-	1,363	1,363
Equity securities and funds	24,700	-	-	24,700
Fixed income funds	12,188	-	-	12,188
Government securities	5,225	-	-	5,225
Absolute return fund	-	-	4,466	4,466
Privately held stock	-	-	2,639	2,639
Total Investments	$ 45,418	$ -	$ 8,468	$ 53,886
Liabilities:				
Interest rate swap payable	-	6,720	-	6,720
Total Liabilities	$ -	$ 6,720	$ -	$ 6,720

The following is a description of the Institute's valuation methodologies for investments carried at fair value. These methods may produce a fair value calculation that may not be reflective of future fair values. Furthermore, while the Institute believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of investments could result in a different estimate of fair value at the reporting date.

Fair value for Level 1 is based upon quoted prices in active markets that the Institute has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Institute does not adjust the quoted price for such assets and liabilities. The market data for these assets is supplied by the Trustees of the assets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The Institute has classified one of its international equity funds and one of its multi-class asset funds in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data. Both of these funds have monthly liquidity.

The Institute has also classified the valuation of its interest rate swap in Level 2 of the fair value hierarchy. For over-the-counter derivatives that trade in liquid markets, such as interest rate swaps, model inputs (i.e. contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

(in thousands)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Roll Forward

	Commercial Paper	Privately Held Stock	Absolute Return Fund	Total
Beginning balance as of July 1, 2009	$ 1,249	$ 2,639	$ 4,642	$ 8,530
Sale of investments	-	-	(523)	(523)
Realized loss	-	-	(83)	(83)
Unrealized gains	114	-	430	544
Balance as of June 30, 2010	$ 1,363	$ 2,639	$ 4,466	$ 8,468
Sale of investments	(1,408)	-	(1,889)	(3,297)
Realized gains (losses)	45	(1,637)	471	(1,121)
Unrealized gains	-	-	90	90
Balance as of June 30, 2011	$ -	$ 1,002	$ 3,138	$ 4,140

Commercial paper held by the Institute in one of its Debt Service Reserve Funds had a market value of $1,363 at June 30, 2010. The Institute received a liquidation payment of $1,408 in July and August 2010 and reported a realized gain of $45.

The Institute holds privately held stock for which trading is infrequent and market value is not readily determinable. The fair value at year end is based upon a multiple of EBITDA. On an ongoing basis, management periodically monitors the financial performance and business position of the Company. As a result, a realized loss of $1,637 was recognized in FY 2011.

The absolute return fund represents investments held by a fund of funds manager. The manager has gaited distributions from the fund. The Institute has elected to liquidate the fund over a prescribed distribution timeframe as determined by the manager. Distributions of $1,889 and $523 have been made during FYs 2011 and 2010.

9. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2011 and 2010 is as follows:

(in thousands)

	2011	2010
Land	$ 4,600	$ 4,600
Building and improvements	160,222	156,413
Furniture & equipment	36,409	41,000
	201,231	202,013
Less accumulated depreciation	(66,492)	(62,059)
	134,739	139,954
Construction in progress	864	861
Property and equipment, net	$ 135,603	$ 140,815

Depreciation expense was $9,186 and $9,440 in 2011 and 2010, respectively.

Capital Lease Obligations

The Institute entered into two capital leases in 2008, one for computer equipment with a value of $418 and a lease term of 3 years and the other for research equipment with a value of $778 and a lease term of 5 years. The capital leases are included with Property and equipment on the Consolidated Balance Sheets.

The aggregate present value of future lease payments were as follows:

2012	$ 176
2013	176
2014	30
Total future minimum lease payment	382
Less: Amount representing interest	(45)
Present value of future minimum lease payable	337
Less: current portion	(156)
Long-term portion	$ 181

The short-term portion is included with Accrued expenses and the long-term portion of future lease payments is included with Other long-term liabilities on the Consolidated Balance Sheets.

(in thousands)

10. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2011 and 2010 are summarized below:

	2011	2010
Within one year	$ 6,354	$ 2,676
One to five years	2,126	2,640
Subtotal	$ 8,480	$ 5,316
Less: Present value component		
(2-1/2% discount rate)	(253)	(140)
Allowance for doubtful pledges	(361)	(484)
Net pledges receivable	$ 7,866	$ 4,692

11. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Institute to concentrations of credit risk consist primarily of cash and cash equivalents, investments and patient accounts receivable.

The Institute typically maintains cash and cash equivalents in commercial banks. The short-term investments consist primarily of money market funds. The FDIC insures funds up to $250,000 per depositor.

The fair value of the Institute's investments are subject to various market fluctuations which include changes in the interest rate environment and general economic conditions.

The Institute records patient receivables due for goods and services provided to patients and others. The majority of these patients either qualify for federal/state assistance programs or have insurance through commercial insurance companies or health maintenance organizations. The Institute maintains reserves for potential losses and such losses have been within management's expectations. The mix of receivables due from patients and third-party payors at June 30, 2011 and 2010 are as follows:

(in thousands)

	2011	2010
Medical Assistance	17.0 %	16.1 %
Medicaid Managed Care Organizations	11.2	9.0
Total Medical Assistance	28.2	25.1
Commercial Insurance	23.0	26.5
Blue Cross	21.2	17.4
Self-pay and other	11.4	15.4
Managed Care	9.3	8.4
Medicare	6.9	7.2
	100.0 %	100.0 %

12. ACCRUED EXPENSES

Accrued expenses at June 30, 2011 and 2010 are made up of the following:

	2011	2010
Payroll	$ 7,054	$ 6,659
Vacation	3,878	3,785
Research subcontracts	2,165	1,622
Workers' compensation, unemployment and health benefits	2,813	2,309
Interest	2,081	2,395
Self Insurance - Malpractice	1,779	1,964
Credit balance receivables	172	432
Other	3,335	4,058
	$ 23,277	$ 23,224

13. LONG-TERM DEBT

Bonds and Notes Payable
Bonds and notes payable issued through Maryland Health and Higher Educational Facilities Authority ("MHHEFA") at June 30, 2011 and 2010 consisted of the following:

(in thousands)

	2011	2010
MHHEFA Series 1997 Bonds	$ 8,892	$ 9,472
MHHEFA Series 2003 Bonds	20,932	21,617
MHHEFA Series 2006 Bonds	-	49,640
MHHEFA Note Payable	-	720
MHHEFA Series 2010 Bonds	29,747	-
MHHEFA Series 2011 Bonds	19,610	-
	79,181	81,449
Less current portion	(1,749)	(2,034)
Unamortized bond discount	(215)	(229)
	$ 77,217	$ 79,186

In November 2006, the Institute borrowed $52,125 through the issuance of the Series 2006 Bonds. A portion of the proceeds were used to refund outstanding bond issues. The remaining proceeds of the Series 2006 Bonds were used to fund the construction of the new outpatient and research buildings.

The Series 2006 Bonds were made up of auction rate obligations with weekly interest rate resets and a maturity date of July 1, 2036. Radian Asset Assurance, Inc. issued a financial guaranty insurance policy insuring the payment of the principal and interest on the Series 2006 Bonds when due. The financial guaranty insurance policy remained in place over the life of the bonds. On February 22, 2008, the Series 2006 Bonds were converted from auction rate obligations to variable rate debt which also reprice on a weekly basis. Additional credit enhancement was provided through a direct pay letter of credit from SunTrust Bank. During FY 2011, the Series 2006 Bonds were fully refunded through the issuance of the Series 2010 and Series 2011 Bonds described below. With the refunding of the Series 2006 Bonds, the Institute canceled the financial guaranty insurance policy with Radian Asset Insurance, Inc. and the credit enhancement with SunTrust Bank.

In December 2010, the Institute refunded $29,785 of the Series 2006 Bonds through the issuance of the Series 2010 Bonds. Additionally, in June 2011, it refunded the remaining portion of the Series 2006 Bonds of $19,490 through the issuance of the Series 2011 Bonds. The Series 2010 Bonds were privately placed with BB&T through a $30,000 bank qualified loan. The Series 2011 Bonds were privately placed with Bank of America through a $19,610 non-bank qualified loan. Both loans have a maturity date of July 1, 2036. Terms of the loan agreements with both banks call for interest to be paid based on a percentage of 30-day LIBOR plus a bank spread. Principal payments under both loans are due in monthly installments on the first day of each month.

(in thousands)

The Series 2003 Bonds include fixed rate serial obligations maturing annually on July 1 of each year in amounts ranging from $80 in 2005 to $745 in 2013. The remaining portion of the Series 2003 Bonds were made up of fixed rate term bonds maturing on July 1, 2018 and 2033. Mandatory sinking fund installments begin 2014. Average interest rates on the serial bonds range from 1.05% to 3.05% and from 4.88% to 5.50% on the term bonds.

The Series 1997 Bonds include fixed rate serial obligations maturing annually on July 1 of each year in amounts ranging from $25 in 1998 to $610 in 2012. The remaining portion of the Series 1997 Bonds were made up of fixed rate term bonds maturing on July 1 of 2014, 2018 and 2022. Mandatory sinking fund installments begin in 2013. Average interest rates on the serial bonds range from 4.10% to 6.00% and from 5.50% to 5.60% on the term bonds.

The Series 1997, Series 2003, Series 2010 and Series 2011 Bonds were issued in parity and contain certain restrictions on the Institute's ability to incur additional indebtedness, restrict its use of facilities, maintain stipulated insurance coverage and maintain a rate structure sufficient to meet its total annual cash requirements. The Institute must maintain compliance with certain financial covenants contained in the bond indentures and loan agreements. At June 30, 2011 and 2010, the Institute was in compliance with all covenants in accordance with these agreements.

Debt service reserve funds have been deposited with a trustee and are classified as limited use funds. The fair value of these assets deposited with the trustee at June 30, 2009 was less than the maximum annual debt service requirement of the Series 2006, 2003 and 1997 Bonds. This deficiency was due solely to the decline in value of a 2007 investment below its par value. On June 1, 2009, the Institute, MHHEFA and the trustee entered a loan agreement "2009 Loan" in which MHHEFA would lend the Institute an aggregate amount up to $1.5 million to cure any deficiency in the Debt Service Reserve Fund. The amount of the deficiency in 2010 was $797 of which the Institute repaid $77. The remaining note payable of $720 was repaid with the issuance of the Series 2010 Bonds in December 2010.

The aggregate future maturities of bonds and notes payable for the next five years and thereafter are summarized below at June 30, 2011.

2012	$ 1,749
2013	2,008
2014	2,103
2015	2,178
2016	2,203
Thereafter	68,940
	$ 79,181

Unamortized bond financing costs of $840 in 2011 and $2,946 in 2010 are included in Other non-current assets. Unamortized bond financing costs of $2,543 related to the Series 2006 Bonds were written-off in FY 2011 and reported as a realized loss on early extinguishment of debt in non-operating activity. Amortization expense was $125 and $132 in 2011 and 2010, respectively.

Line of Credit

The Institute maintains a working capital line of credit with Bank of America. Committed amounts under the line of credit are $10.0 million effective October 5, 2009, $8.5 million effective April 30, 2010 and $5.0 million effective March 31, 2011 and thereafter. Total draws of $2.5 million and $8.5 million were outstanding against the line of credit at June 30, 2011 and 2010, respectively. The line of credit is secured by a pledge on the revenues of the Institute and the financial covenant requirements are consistent with those of the Series 2011 Bonds.

CRE maintains a working line of credit of $4.0 million. CRE has drawn $2,104 and $3,270 at June 30, 2011 and 2010, respectively. The line is secured by all the assets of CRE and the Foundation guarantees up to $3,000 of the line of credit. The line of credit agreement has financial covenant requirements of a minimum tangible net worth of $2,750 and a debt to tangible net worth ratio of not greater than 3.5 to 1.0 for fiscal years 2011 and 2010, respectively. At June 30, 2011 and 2010, CRE was in compliance with the terms of these financial covenants.

14. RETIREMENT PLANS

The Institute maintains defined benefit and defined contribution plans covering substantially all of its employees.

Defined Benefit Plan

The Institute's defined benefit pension plan provides benefits to staff-level employees based on years of service and the employees' final average compensation. The Institute's policy is to annually fund the amount necessary to meet minimum funding requirement under ERISA. Contributions of $2,800 and $1,100 were made for 2011 and 2010, respectively.

The net periodic benefit cost, calculated in accordance with current guidance for employer's accounting for pensions, is $1,353 and $1,142 for 2011 and 2010, respectively.

The following table sets for the plan's funded status and benefit obligations recognized in the Institute's financial statements at June 30, 2011 and 2010:

(in thousands)

	2011	2010
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 37,088	$ 31,566
Interest cost	2,009	1,938
Actuarial loss	338	5,000
Benefits paid	(1,540)	(1,416)
Projected benefit obligation at end of year	$ 37,895	$ 37,088
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 23,060	$ 20,596
Actual return on plan assets	4,124	2,780
Employer contribution	2,800	1,100
Benefits paid	(1,540)	(1,416)
Fair value of plan assets at end of year	$ 28,444	$ 23,060
Funded status at end of year	$ (9,451)	$ (14,028)
Net amount recognized in the balance sheet:		
Non-current liabilities	$ (9,451)	$ (14,028)
Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets:		
Accumulated actuarial loss	$ (10,311)	$ (13,440)
Net unrestricted net assets previously reflected	860	(588)
Net amount recognized	$ (9,451)	$ (14,028)
Other changes in plan assets and benefit obligation recognized in unrestricted net assets:		
Net (gain) loss arising during period	$ (1,915)	$ 3,823
Loss on amortization	(1,217)	(807)
Total recognized	$ (3,132)	$ 3,016
Components of net periodic pension cost:		
Interest cost	$ 2,009	$ 1,938
Expected return on plan assets	(1,872)	(1,603)
Loss on amortization	1,216	807
Net periodic pension cost	$ 1,353	$ 1,142
Total recognized in net periodic benefit cost and other comprehensive (gain) loss	$ (1,779)	$ 4,158

(in thousands)

	2011	2010
Additional information:		
Accumulated benefit obligation	$ 37,895	$ 37,088
Fair value of assets	$ 28,444	$ 23,060
Expected contributions in fiscal year ending June 30, 2012	$ 1,400	$ -

Expected benefit payments for fiscal year ending June 30, 2011:

2012	$ 1,004
2013	1,012
2014	1,125
2015	1,201
2016	1,308
Next five years	8,750

	FYE June 30, 2011	FYE June 30, 2010
Weighted-average assumptions to determine benefit obligations:		
Discount rate	5.50%	5.50%
Salary increase	Not applicable	Not applicable
Measurement date	June 30	June 30
Participant census data used	January 1, 2011	January 1, 2010

In determining the expected long-term rate of return on plan assets, the Institute evaluated the historical long-term rate of return for each class of asset in the plan and obtained input from its investment consultant, investment managers and actuary on their future expectations of returns for each asset class. The long-term rate of return determined based on this review and input was 8.00% in fiscal years 2011 and 2010.

The following tables present fair value measurements for pension plan assets as of June 30, 2011 and 2010, by the valuation hierarchy as defined in footnote 8:

(in thousands)

June 30, 2011
Fair Value Measurements for Pension Plan Assets

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Cash and cash equivalents	$ 694	$ -	$ -	$ 694
Fixed income securities	7,642	-	-	7,642
Equity Securities	10,755	1,891	-	12,646
Multi-class assets	3,213	3,015	-	6,228
Absolute return fund	-	-	1,234	1,234
Total Investments	$ 22,304	$ 4,906	$ 1,234	$ 28,444

June 30, 2010
Fair Value Measurements for Pension Plan Assets

Assets	Quoted Prices in Active Markets (Level 1)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Investments:			
Cash and cash equivalents	$ 556	$ -	$ 556
Fixed income securities	7,199	-	7,199
Equity Securities	13,510	-	13,510
Absolute return fund	-	1,795	1,795
Total Investments	$ 21,265	$ 1,795	$ 23,060

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Roll Forward

	2011 Absolute Return Fund	2010 Absolute Return Fund
Beginning balance	$ 1,795	$ 1,949
Sale of investments	(736)	(203)
Realized gains	146	30
Unrealized gains	28	19
Ending balance	$ 1,233	$ 1,795

(in thousands)

The pension plan's target allocations and actual asset allocation at June 30, by asset category, was as follows:

	Target Allocation	2011	2010
Equities	40%	44%	59%
Fixed income	25%	27%	31%
Multi-class assets	20%	22%	-
Absolute return funds	15%	4%	8%
Cash	-	3%	2%
		100%	100%

The objectives of the plan's investment strategy are to maximize the plan's funded status and minimize the Institute's contributions and plan expense.

The Investment Committee of the Board of Directors establishes a target asset allocation. The Investment Committee regularly reviews the actual asset allocation against the target and periodically rebalances the investments, as appropriate.

Defined contribution plans

In addition, the Institute maintains qualified defined contribution retirement plans which are in compliance with section 401(k) and 403(b) of the Internal Revenue Code. The 401(k) plan is available to all employees (including all faculty and senior staff members effective April 1, 2007) and provides for up to a 50% employer match on employee contributions up to 5% of compensation. The 403(b) plan was available to faculty and senior staff members providing employer contributions at fixed rates of annual compensation. Deferrals to the 403(b) plan were frozen effective March 31, 2007. During 2011 and 2010, the aggregate contributions for these plans were $13,215 and $12,154. Each plan is fully funded.

CRE also sponsors a 401(k) plan for all eligible employees who have completed one year of service and are at least 21 years of age. The employees become fully vested after two years of employment. Funding of the plan is discretionary and is based on the percentage of each participant's compensation for that year. Contribution expense for the years ended June 30, 2011 and 2010 was $132 and $107, respectively.

15. INTEREST RATE SWAP

The Institute manages the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense on variable rate debt, by utilizing an interest rate swap. In conjunction with the Series 2006 Bonds, the Institute entered into a 30-year fixed payor interest rate swap with Wachovia Bank, NA effective October 25, 2006. Under the terms of the agreement, the Institute will pay a fixed rate of 3.636% and receive 67% of 30-

(in thousands)

day LIBOR on notional amounts that reduce annually until July 2036. Notional amounts of $40,611 and $41,110 were effective June 30, 2011 and 2010, respectively. Under the terms of the agreement, no collateral requirements exist on the part of the Institute should its long-term debt rating fall below certain thresholds.

The fair value of the interest rate swap and the related unrealized gains (losses) were as follows as of June 30:

Classification in the Consolidated Balance Sheets	Fair Market Value 2011	Fair Market Value 2010
Accrued liability (Included in Other liabilities)	$ 5,402	$ 6,720

Classification in the Consolidated Statements of Operations	Amount of gain (loss) recognized in Non-operating activity 2011	Amount of gain (loss) recognized in Non-operating activity 2010
Unrealized gain (loss) on interst rate swap	$ 1,318	$ (1,643)
Interest rate swap payments	(1,403)	(1,394)
Unrealized loss on interest rate swap, net	$ (85)	$ (3,037)

16. TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2011 and 2010:

	2011	2010
Research and clinical projects	$ 20,428	$ 20,907
Research chairs	9,049	9,049
	$ 29,477	$ 29,956

During 2011 and 2010, temporarily restricted net assets were released by satisfying donor restrictions in the following amounts:

(in thousands)

	2011	2010
Property and equipment	$ 350	$ 467
Operating activities	7,353	5,682
Total	$ 7,703	$ 6,149

17. SELF INSURANCE

Professional and General Liability
The Institute maintains professional and general liability insurance to cover liability claims arising out of the ordinary course of its business.

The Institute maintains a self-insurance trust (the "Trust") for general and professional liability coverage with self-insured retentions at $3 million per claim and $6 million in aggregate. Excess coverage above the retentions is in place up to $20 million on a claims made basis.

Contributions to the Trust are to provide for payment of claims and expenses based on evaluations prepared by an independent actuarial firm. In the event that sufficient funds are not available from the Trust and the excess insurance policy, the Institute would be responsible for paying claims. Losses from asserted claims and from unasserted claims identified under the Institute's incident reporting system are accrued based on estimates that incorporate the Institute's past experience, as well as other considerations, including the nature of each claim or incident, applicable insurance coverage and relevant trend factors. There are no significant claims outstanding against the self-insured trust as of June 30, 2011.

An accrued liability of $1,779 and $1,964 has been recorded at June 30, 2011 and 2010, respectively, related to the self-insurance general and professional liability, and is included in Accrued expenses. Assets in the self-insured trust have a market value of $3,571 and $3,163 at June 30, 2011 and 2010, respectively and are reported in non-current Assets limited as to use on the Consolidated Balance Sheets.

Workers' Compensation, Unemployment and Health Benefits
The Institute self-insures its workers' compensation, unemployment and employee health benefits. Losses from claims identified under the incident reporting system, as well as provisions for estimated losses for incurred but not reported incidents, are accrued based on estimates that incorporate the past experience of the Institute, as well as other considerations, including the nature of the claims or incidents and relevant trend factors. An accrued liability of $2,813 and $2,309 has been recorded at June 30, 2011 and 2010, respectively for these self-insured plans and is included in Accrued expenses on the Consolidated Balance Sheets.

(in thousands)

18. COMMITMENTS AND CONTINGENCIES

Litigation
The Institute is involved in claims and litigation on professional liability matters, as well as personnel matters that arise in the ordinary course of its business. None of this litigation is expected to result in losses in excess of insurance limits or have a materially adverse effect on the Institute's financial position.

Rental Lease Commitments
Through the creation of MSP, all property and major equipment is leased/subleased to each operating entity. These transactions are eliminated through the consolidation of the Institute's financial statements.

MSP and CRE have entered into various external agreements to rent office space under non-cancelable operating lease agreements. Minimum rental payments to be made under these leases are:

2012	$ 1,859
2013	1,093
2014	417
2015	249
2016	45
thereafter	$ 3,663

Rent expense on external lease commitments for the years ended June 30, 2011 and 2010 was $1,980 and $1,821 respectively.

Gift Annuities
The Institute has received charitable gift annuities from donors from which the Institute has guaranteed payments to the donor on a quarterly basis until the donor's death.

The Institute has recorded gift annuities, net of reserves, consistent with the rates adopted by the American Council on Gift Annuities at the time of issuance of the gift annuity. Assets maintained on outstanding annuity agreements exceed the amount of the reserve. Gift annuities with a market value of $1,102 and $980 and reserves of $666 and $631 have been recorded in 2011 and 2010, respectively, and are included in Assets limited as to use on the Consolidated Balance Sheets.

(in thousands)

19. FUNCTIONAL EXPENSES

The Institute provides specialty pediatric health care services, administers professional training programs, conducts bench and clinical research, operates special education school programs, administers community-based services, conducts fundraising activities and operates ancillary ventures. Expenses related to providing these services are as follows:

	2011	2010
Patient care services	$ 94,668	$ 93,016
Research	23,624	24,519
Education/community services	40,912	40,952
Foundation activities	14,489	13,744
Facility related	23,708	23,307
General and administrative	22,232	18,980
	$ 219,633	$ 214,518

20. SALE OF SUBSIDIARY

In connection with its November 1, 2004 sale of Madison Group Ventures, Inc. and Adaptive Equipment Systems, Inc., the Foundation received $100 and $346 in 2011 and 2010, respectively, representing settlement payments on an incentive earnout agreement. These payments are reflected as a Gain on sale of subsidiary in the Consolidated Statements of Operations.

21. SALE OF CRE

On July 1, 2011, the Foundation, CRE and a minority shareholder entered into a stock purchase agreement (the Agreement) with ATG Holdings, Inc. for the sale of the outstanding capital stock of CRE. The Agreement called for the initial sale of 75% of the outstanding capital stock of CRE on July 1, 2011, with the remaining 25% to be sold not later than December 31, 2012. The Agreement also called for the payment by ATG Holdings, Inc. of $11 million representing 75% of the enterprise value plus $3 million non-compete payment at settlement. Outstanding debt of CRE of $2,104 was paid off concurrent with this transaction. A deferred payment of $2 million plus interest is to be paid with the sale of the remaining 25% of the outstanding capital stock. On July 1, 2011, the Foundation received net proceeds of $11.7 million and anticipates recording a gain on sale of subsidiary from this transaction.

22. SUBSEQUENT EVENTS

The Institute evaluated subsequent events through September 27, 2011, the date the financial statements are available to be issued. Aside from the sale of CRE described in footnote 21, there have been no other events subsequent to the balance sheet date that need to be disclosed.