impact—*the capacity to create a powerful effect*—**Johns Hopkins**

JOHNS HOPKINS
UNIVERSITY

Contents

Year in Review

Statistical Data

Financial Statements

President's Message The reach of Johns Hopkins

Greetings:

It is my pleasure to convey this annual financial report of The Johns Hopkins University covering fiscal year 2002.

During uncertain times it is always best to have a plan. At Johns Hopkins, we have just that. For more than a decade, the University has employed a rolling five-year financial planning system that identifies future needs and obligations, defines sources of revenues, highlights possible threats, and targets specific goals. This system has served us remarkably well since its implementation at a very painful crossroads back in 1988. And, I believe, it will continue to serve us well as we move into a future already marked by slower economic growth, one that may possibly include sustained periods of economic retrenchment in the years ahead.

Even in the worst of economic times, however, the mission of the University remains clear. Education, research, and service—these are the three great pillars supporting the entire Hopkins enterprise. They are more critically important to our community, to our nation, and to the world than at any time in the recent past. This is why the continuing financial health of Johns Hopkins is of paramount importance to us all.

The following pages offer ample evidence that Hopkins remains strong and continues to advance across each of its nine divisions. In an unprecedented move unattempted at our peer institutions, we began the quiet phase of our current fund-raising campaign the day after closing our phenomenally successful Johns Hopkins Initiative. The success of this effort enabled us to publicly announce the campaign a mere 22 months later—with more than a third of our $2 billion goal already achieved. Even though Johns Hopkins: Knowledge for the World was a silent campaign last year, we nonetheless raised more than $373 million in commitments, our second-highest annual number ever. The continuing success of our fundraising efforts indicates the great reservoir of goodwill we enjoy from family and strangers alike, and underscores the importance of Johns Hopkins' mission to the world.

Sincerely,

William R. Brody

William R. Brody

President,

The Johns Hopkins University

Nursing.

From a small rowhouse in East Baltimore to a community clinic in a South African township, School of Nursing faculty and students deliver quality health care to families and individuals in need.

The school operates five clinics in Baltimore where nursing students learn how to assess the health status of the urban community, deliver optimum health services, and help vulnerable or low-income clients overcome barriers to health care. But it doesn't stop there.

The mission to educate nurses extends beyond Baltimore. The school's Global Health Promotion Research Program helps students pursue research that addresses health disparities in the United States and in other countries such as South Africa, Australia, and Sweden. Students work as research assistants in these countries, learning the importance of delivering culturally appropriate care. In addition, the School of Nursing has the distinction of being home to the nation's only Peace Corps Fellows Program in nursing. The program gives returned Peace Corps volunteers enrolled in the School of Nursing the chance to work in Baltimore's urban community and develop the skills they learned in the Peace Corps.

Whether it's crossing city streets or international borders, the goal for School of Nursing faculty and students remains the same—to improve the lives of patients everywhere.

Financial Summary

We are pleased with the financial results reported in these pages. They reflect the strength of the continuing partnership between Johns Hopkins University and its research sponsors; the commitment of the many alumni and friends of the University in support of our efforts to continue as the nation's premier research university; the confidence of students and parents in Johns Hopkins as an excellent center of learning; and the faith of those in need of health care in the competence of our faculty.

In the fiscal year that ended June 30, 2002, revenues from research sponsors amounted to $1.394 billion, representing 58% of total University operating revenue, an increase in research sponsorship of 17% from the previous fiscal year. Contributions to the University last year amounted to $223 million, compared to $306 million in fiscal year 2001.

For the 2001–2002 school year, Johns Hopkins University received 9,623 undergraduate applications of which 3,320 were offered acceptances, and 1,096 enrolled. Net tuition and fees received amounted to $254 million, or 10.5% of total operating revenue, an increase of 9.6% over 2000–2001.

Clinical services also grew. During fiscal year 2002, Johns Hopkins doctors generated clinical revenues of $228 million. This sum was 9% of total University revenue and reflected a year-to-year growth of 17%.

During fiscal year 2002, the University and the Johns Hopkins Health System began an assessment of the degree to which both institutions can become more efficient by sharing certain administrative and computing processes. This project, when completed, will enhance the tools available to Johns Hopkins faculty, managers, and administrators to achieve our missions efficiently and effectively.

The University continues its investment in facilities to support the expanding demand for services.

During the past fiscal year the following buildings were completed: Wolfe 3 and 4, Bloomberg School of Public Health; Student Recreation Center, Homewood campus; and Clark Hall, Homewood campus.

Also, construction began on Wolfe 5 and 6, Bloomberg School of Public Health; Hodson Hall, Homewood campus; the San Martin Center, Homewood campus; the Chemistry Building, Homewood campus; the Broadway Research Building, School of Medicine; Peabody expansion, Peabody Institute.

Phase I of the Homewood campus improvement project was completed, and Phase II was begun immediately after spring graduation. When completed, these projects will enhance Homewood's visual appeal and make it a more student-and-faculty-friendly campus.

Medicine.

Johns Hopkins Medicine's world-wide research reputation is also the linchpin of the region's most ambitious and far-reaching initiative since the Charles Center/ Inner Harbor project: the redevelopment of approximately 80 acres of blighted area north of the East Baltimore Medical Campus. A 22-acre biotechnology park critical to this new initiative is projected to house as many as 50 companies attracted by networking opportunities with Hopkins scientists. In support of the venture, Hopkins has committed to leasing up to 30,000 square feet of lab space in the park, which has the potential to generate 8,000 new jobs. Equally important, the development will create new streets, block configurations, and mixed-income housing, and Hopkins has allocated resources to assist displaced residents. The plan for the park—critical to turning around the troubled neighborhood—results from a unique partnership between Baltimore City, the state of Maryland, Hopkins, the Historic East Baltimore Community Action Coalition, and the communities of East Baltimore.

Financial Summary

At this writing, we are in the middle of updating an analysis of the economic impact of Johns Hopkins on the City of Baltimore and the State of Maryland. Preliminary results suggest that the three entities derive substantial mutual benefit from their association. Building on this theme, Johns Hopkins and the City of Baltimore have announced plans to redevelop the area north of the East Baltimore campus into a biotech business zone. This project will contribute to the reduction of urban blight, create jobs, and support research and teaching within the University.

I am happy to report that Johns Hopkins University enjoyed an operating surplus of nearly $186 million in fiscal year 2002. The more important "bottom line," however, is that Johns Hopkins University continues to be a vital, growing, contributing community within the world community with a sound financial structure for taking advantage of the opportunities that the future will bring.

James T. McGill
Senior Vice President for
Finance and Administration

Engineering.

The Whiting School of Engineering continues to strengthen its environmental reach throughout the Northeast. With the newly established Center for Hazardous Substances in Urban Environments, environmental engineering professor Ed Bouwer and team will research how chemicals move from waste sites to soil, groundwater, air, and surface water. Such issues are key to the redevelopment of many former industrial areas in the nation's inner cities, such as Wagner's Point in Baltimore (pictured).

In another example of the far-reaching effects of engineering research, mechanical engineering professor Allison Okamura is developing haptic robotics—mimicking the human sense of touch. The development of this new generation of robotics will nable cooperative robot-human surgical procedures, and even autonomous robotic surgical procedures. Dr. Okamura is also developing a computer-based, virtual surgical environment that will allow surgeons to practice their techniques in advance of surgery. Haptic robotics research has the capability to revolutionize modern surgical techniques on a global scale.

Development and Alumni Relations

During fiscal year 2002, Johns Hopkins received a history-making commitment of $150 million for cancer research and clinical care, and publicly launched a new campaign with a goal of $2 billion.

Significant Campaign Progress

The Campaign for Johns Hopkins: Knowledge for the World was publicly announced on May 4, 2002, with more than 36% of the $2 billion goal already committed; the total committed had increased to 39% of the goal by the close of fiscal year 2002. May 4 also marked the dedication of the Sidney Kimmel Comprehensive Cancer Center, named in honor of Philadelphia businessman Sidney Kimmel, whose $150 million commitment is the largest single gift in the history of Johns Hopkins.

The Knowledge for the World campaign is headed by trustees J. Barclay Knapp, George L. Bunting Jr., and Gail J. McGovern. The "quiet phase" of the campaign began on July 1, 2000, just one day after the conclusion of the $1.52 billion Johns Hopkins Initiative. Johns Hopkins is one of the first major American higher education institutions to mount such back-to-back campaigns.

In announcing the new campaign, University President William R. Brody said: "We seek to build on the momentum of our last campaign to address both the unprecedented opportunities and unprecedented challenges before us. We pledge a 'return on investment' that will make Hopkins' philanthropic partners proud to be part of one of the world's great enterprises."

The campaign addresses priorities in all the academic divisions of the University, as well as several of its centers and institutes. Half of the $2 billion goal is sought for priorities at Johns Hopkins Medicine, which encompasses the School of Medicine and the Johns Hopkins Hospital and Health System.

Campaign priorities include building and upgrading facilities on all campuses; advancing research, academic, and clinical initiatives; and strengthening endowments for student aid and faculty support. While private gifts in recent years have added greatly to Johns Hopkins' endowment, the annual income from endowment still provides a far smaller percentage of operating costs than at many peer institutions.

Capital priorities at Johns Hopkins Medicine include new research buildings, a new children's and maternal hospital, and a cardiovascular and critical care hospital. Elsewhere, capital priorities include completion of campus renovations at the Peabody Institute and renovation of Gilman Hall at the Krieger School of Arts and Sciences.

During fiscal year 2002, $373.3 million was committed to the campaign, bringing total commitments to the campaign (over the course of two fiscal years) to $782.3 million. More than one-fourth of the total is earmarked for endowment.

Commitments from alumni account for 33% of total campaign commitments; 30% has come from friends, 26% from foundations, 7% from organizations, and 4% from corporations. These campaign commitments are designated as follows: 49% for program support, 24% for research, 11% for facilities and instrumentation, 7% for faculty support, and 5% for student aid. An additional 4% was for unrestricted use.

Near-Record FY 2002 Gifts and Pledges

Totals for both cash receipts and new commitments in fiscal year 2002 were the second-highest in the history of Johns Hopkins. The cash total—which includes outright gifts plus pledge payments received during FY 2002—was $319 million. The total for new commitments—which includes outright gifts plus new pledges made during FY 2002—totaled $373 million. Both figures were only slightly below the remarkable records set in fiscal year 2001.

Leadership and principal commitments during fiscal year 2002—in addition to the $150 million pledged by Jones Apparel Group founder Sidney Kimmel—included:

- At Johns Hopkins Medicine, $15 million from a friend of Johns Hopkins Medicine for cancer research; $5 million from Hopkins trustee emeritus Harvey Meyerhoff and his children to support inflammatory bowel disease research and treatment; $2 million from Medicine friends to create a professorship in cardiology; $1.8 million from the W. M. Keck Foundation for the basic sciences at the School of Medicine; and up to $10 million from the Robert Garrett Fund for the Surgical Treatment of Children toward construction of a new children's and maternal hospital building.
- A $9.9 million grant from the Pew Charitable Trusts to the Phoebe R. Berman Bioethics Institute to establish the Genetics and Public Policy Center
- More than $3 million from trustee emeritus and presidential counselor Ralph S. O'Connor—in addition to his earlier substantial support—for the new recreation center named in his honor
- $5 million from the Leonard Stulman and Helen R. Stulman Charitable Foundation to establish a Jewish Studies Program at the Krieger School of Arts and Sciences
- $3 million from a trustee for a bioethics professorship at the School of Nursing and initiatives at Johns Hopkins Medicine
- Two $1 million gifts to the Whiting School of Engineering to support biomedical engineering
- A $1.3 million planned gift to the Sheridan Libraries to endow a fund for acquisitions in the humanities
- $1.6 million from the Goldman

Public Health.

As the nation's oldest, largest, and most academically acclaimed school of its kind, the Johns Hopkins Bloomberg School of Public Health has some of the world's leading scientists and researchers in the fields of biomedical science, public health law, vaccine research, and health policy. Since September 11, 2001 and the anthrax terrorist attacks, these specialties have been in great demand. The school has responded by dedicating its collective science and expertise to bolster the nation's public health preparedness. A coalition of school researchers has already made a significant impact in protecting health by gauging the power of antibiotics to blunt the anthrax outbreak, developing model emergency public health laws for states, advising key U.S. government officials on the science behind bioterrorism, educating health authorities about public health preparedness, and helping in many other areas. A longtime proponent of biopreparedness, the school's Center for Civilian Biodefense Strategies has published important research on biological agents and counseled government officials on improving public health infrastructure. Through its unparalleled research expertise, the school has emerged as a vital national public health resource.

Sachs Foundation to the Center for Talented Youth to expand its support for high-achieving youngsters from underrepresented backgrounds to enroll in the center's programs

- $1.5 million from two trustees to support the creation of a Society of Black Alumni Professorship for Prominent Scholars
- $1.4 million to the Institute for Policy Studies from the William and Flora Hewlett Foundation to support development of a management information system focused on the foundation's programs promoting responsible fatherhood
- $1 million from the Lipitz Family Foundation to establish the Center for Health Policy and Practice at the Bloomberg School of Public Health, which will focus on assuring that faculty discoveries are rapidly translated into policies and practice
- $975,000 from the Freeman Foundation to the Nitze School of Advanced International Studies to support Southeast Asia Studies

Increased Alumni Involvement

Programs and outreach by the Johns Hopkins Alumni Office dramatically increased alumni involvement during FY 2002. More than 7,500 individuals attended 168 alumni chapter events around the world; 385 individuals participated in Hopkins-sponsored international travel programs; and more than 2,000 alumni were active as University volunteers. Twenty-one alumni and friends were honored with awards from the Alumni Association.

Music.

"The cranes dance with the melodious music. The birds sing as the flowers bloom. May you be blessed with happiness."

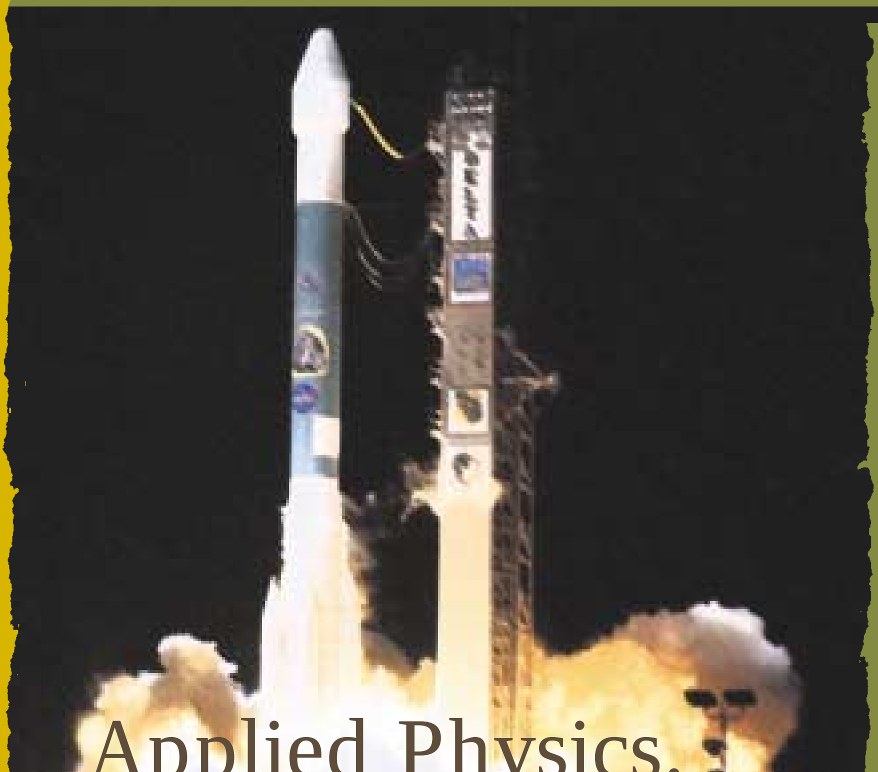
Those joyous words are from a piece of calligraphy commissioned to celebrate the signing of an agreement between the National University of Singapore (NUS) and the Peabody Institute. The two institutions are collaborating to create the Singapore Conservatory of Music on the NUS campus. Peabody is the first American conservatory to enter into such an agreement with a major research university in Asia.

Peabody director Robert Sirota observes that "Peabody faculty are enthusiastic about extending and strengthening our ties in the Asia Pacific region. As well as viewing this venture as a mutually profitable business partnership, we look forward to a synergistic, cross-cultural impact for both our institutions."

Peabody's former dean, Steven Baxter, became director of the Singapore Conservatory of Music as of January 1, 2002. Initially, many Peabody faculty members will be traveling to Singapore to teach at the new conservatory, which is expected to open in July 2003 and draw students from the entire region. Peabody administrators will help set up criteria for faculty recruitment and student admissions to ensure world-class standards of excellence.

The initial agreement is for a six-year period, but collaborations are expected to increase beyond that start-up period. It is envisaged that they will include faculty residencies, a student exchange program, a graduate program, the use of technology for distance learning exchanges, and other initiatives.

The signing ceremony was attended by three Singapore government ministers, including Deputy Prime Minister Tony Tan, who commented: "Peabody is an acknowledged leader in the cultural life of Maryland and has built up a reputation that is truly international."



Applied Physics.

The year 2002 marks the 60th anniversary of the Applied PhysicsLaboratory (APL) helping to protect the nation through the development of advanced weapons systems concepts, information and communication security systems, and naval platform capabilities and defense systems. Innovative biomedical devices and transportation safety systems improve the nation's well-being while new anti-counterfeiting techniques protect economic security. After the tragic events of September 11, 2001, APL increased or refocused efforts to address new threats to our homeland. Among these activities are biological/chemical surveillance, detection, and decontamination systems. These are examples of how the Laboratory continues to make critical contributions to critical challenges in R&D and system engineering for the Department of Defense, NASA, and other government sponsors.

Inspired by the success of its Near Earth Asteroid Rendezvous (NEAR) mission—the first spacecraft to orbit and land on an asteroid—APL continues working with NASA to explore our planet and the solar system around us. Lab engineers and scientists moved ahead with designs for pioneering satellites and missions to study Mercury, Pluto, and the sun. The Laboratory's TIMED spacecraft launched in December 2001 and began a two-year study of the mysterious, uncharted regions of the upper atmosphere. The APL-built Comet Nucleus Tour (CONTOUR) spacecraft, sixth in NASA''s Discovery series of space science missions, launched July 5, 2002—but fell silent during a maneuver six weeks later. While APL mission operators plan a final attempt to contact the satellite, CONTOUR reminds us all of the inescapable risks of deep space exploration.

Research

In a year of severe economic turmoil, Johns Hopkins never wavered from the vigorous pace of discovery for which it is known, expending over $1 billion in research funds between the University's academic research divisions and the Applied Physics Laboratory. Every University division increased its funding, for both research projects and evolution of the kind of academic programs that have earned Johns Hopkins its distinction as the nation's first research university. The School of Medicine retained its decade-long standing as first in the nation in receipt of federal research dollars and ranked second among top U.S. medical schools in training grants. The cross-disciplinary nature of the inquiry needed for much of the work multiplies the value of these funds to the University.

One of Hopkins' major strengths is the resolve of its investigators to solve the problems of our daily existence, which translates into large, multiyear research projects. The matter of hazardous substances in the environment is an important case in point. The U.S. Environmental Protection Agency (EPA) provided to Hopkins, as lead institution, a $5.2 million award from its Hazardous Substance Research Centers (HSRC) Program to establish the Center for Hazardous Substances in Urban Environments. Scientists and environmental engineers from Hopkins' Whiting School of Engineering and four other institutions (University of Maryland, Morgan State University, University of Connecticut, and New Jersey Institute of Technology) are studying the biological processes and associated risks of hazardous wastes in urban settings, where about 80% of the population resides. Nearly one-third of the budget is committed to outreach and assistance to affected populations, industry, and environmental regulators in the Northeast; these regional data, however, will have global applications. Scientists have found that the prescription drugs taken by millions to combat illness do not pass benignly through the digestive system but find their way back to our waterways. A group of engineers received a three-year $525,000 grant, also from the EPA, specifically to study prescription drug pollution in drinking water, sewage treatment plants, and coastal waters. Environmental engineers have also won a highly competitive National Science Foundation equipment grant of $2.5 million for instrumentation to measure the emission and transport of biological aerosols into the atmosphere linking across minute and large scales.

The potential consequences of chemicals in the environment is a natural catalyst for medical research. Environmental health scientists in the Bloomberg School of Public Health received a grant of $2 million over five years from the National Cancer Institute to study the biochemical and molecular

International Studies.

The mission of the Nitze School for Advanced International Studies (SAIS) has never been more critical than it is today. At campuses in Washington, Bologna, and Nanjing, SAIS is educating a generation of new global leaders while providing expertise on the key issues to both policy-makers and the public.

Professors Fouad Ajami, Frederick Starr, Eliot Cohen, and Ruth Wedgwood have advised the U.S. government on such issues as Islamic culture, the Taliban and Afghanistan's political climate, military strategy, and international prisoners of war. The Defense Department selected Kassem Wahba, coordinator of the Arabic Language Program, to be one of two independent translators of the Osama bin Laden videotape released in December. During this critical time, SAIS also has remained keenly aware of the other aspects of international affairs currently not in the 9/11 spotlight. The school has continued to support academic programs and research projects relating to international development, globalization, emerging financial markets, environmental policy, bioethics, disease control, and human rights.

mechanisms involved when cancer is triggered by chemicals. The findings will serve as a basis for the prevention, interruption, or reversal of these processes in humans. This group is currently investigating how a molecular process known as enzyme induction may be a useful strategy for cancer prevention.

Cancer research grew overall this year with a gift to the University of $150 million from Sidney Kimmel, founder and chairman of Jones Apparel Group, for research and patient care. Working within the newly renamed Sidney Kimmel Comprehensive Cancer Center at Johns Hopkins, Oncology researchers received funding for projects ranging from laboratory investigations to the more systematic inclusion of underrepresented populations in cancer research and care. At the basic science level, the National Cancer Institute (NCI) funded a five-year grant of $2 million for research using the tools and techniques of molecular biology to study and find new detection methods and treatments for cancer. A $3.9 million grant, also from NCI, supports the Howard/Hopkins Cancer Center Partnership for five years. This alliance encourages the enhancement of cancer research abilities at the Howard University Cancer Center (HUCC), a largely minority-serving institution, with Hopkins collaboration. Halfway through this grant, HUCC will be able to obtain its own peer-reviewed funding for independent research in the target areas, paving the way for the beneficial inclusion of more African-Americans as health care providers, researchers, educators, and patients.

Magnetic resonance imaging (MRI) has given a boost to oncology and become invaluable for research and interventions into other chronic illnesses, such as heart disease and neurological disorders. Hopkins researchers are on the front lines of progress in MRI capabilities, techniques, and services. Pioneering researchers in the School of Medicine Department of Radiology were awarded $4.2 million over five years from the National Institutes of Health (NIH) for the further development of innovative MRI technology. The results of these studies could lead to regular clinical applications for some of the most serious health problems, including heart disease and cancer. On the functional side, Hopkins radiologists received a five-year grant of $5 million from the NCI to establish a molecular imaging center for cancer research focusing on small animal imaging.

The ability to "see" the origin of disease at the molecular level is complemented by considering the interaction of genetic susceptibility and other risk factors with a view toward modifying the course of disease. This is evident in the Department of Psychiatry and Behavioral Sciences, Division of Psychiatric Neuro-Imaging, which is dedicated to increasing the understanding of brain, behavior, and genetics and the connections among them via neuro-imaging research. A new five-year grant of $2 million from the National Institute of Child Health and Human Development to explore disability in Parkinson's disease in this manner recognizes the soundness of this approach.

Genetics remains a vital element in understanding and easing the human condition. Investigators have found that although only one gene has been linked to cystic fibrosis (CF), other genes, called modifying genes, may influence the severity of disease symptoms. Coordinated by a Hopkins research team in Pediatrics and Medicine, physicians are gathering data on twins and siblings with CF because they furnish more precise information regarding genetics and environmental factors. Knowing which symptom and disease differences can be attributed to other genes and identifying those specific genes may help to mediate the course of CF and its symptoms. The study is being carried out with $5 million over five years from the National Heart, Lung and Blood Institute with additional support from the Cystic Fibrosis Foundation.

Retroviruses that infest the human genome have taken a huge toll on lives around the world. Using yeast to model the human genome, investigators in the Department of Molecular Biology and Genetics will create a yeast genetic interaction map to study the movement of these viruses within cells. As an experimental organism, yeast allows diverse genetic approaches as well as biochemical approaches, which, it is hoped, will lead to novel antiretroviral therapies. To move this work along, the NIH has provided $5 million over three years to these researchers.

Center grants are an indispensable source of long-term funding. Several such grants were awarded this year throughout the University and the Medical Institutions. The Asthma and Allergy Center at Bayview received one of only eight Asthma and Allergic Diseases Research Center grants awarded in this cycle by the NIH. Funded at $3.7 million over four years, the center's faculty will study tissue-specific mechanisms of allergic inflammation to gain new insights into how allergens attack the immune system. A team of epidemiologists in the Bloomberg School of Public Health was designated as a Center of Excellence for Autism and Other Developmental Disabilities Epidemiology by the Centers for Disease Control and Prevention. Initial funds exceeding $1 million are helping these researchers to make new inroads into documenting how autism spectrum disorders and other developmental disabilities are determined and distributed within the population.

Medical challenges at either end of the human life span are being met with funding from the NIH. Spurred on by the controversy over the need for cochlear ear implants in deaf children, otolaryngologists in the School of Medicine's Listening

Center are assessing the advantages of this procedure by following the development of children after their implants. An $8 million grant from the National Institute of Deaf and Other Disorders has allowed them to design a program unique to such children whereby previously non-hearing children can learn to identify auditory signals and integrate them into their world. The cost-benefit of fewer demands on special education and greater wage-earning opportunities should help overcome opposition to the implants.

Partnering with the older women of Baltimore has earned investigators in the Welch Center for Prevention, Epidemiology, and Clinical Research $4.1 million from the National Institute on Aging for a five-year initiative to study the pathogenesis of physical disability in aging women. The Welch Center transcends disciplinary boundaries as investigators from the schools of Medicine, Public Health, and Nursing, working together, employ epidemiologic and biostatistical methods for clinical research. As a result of this particular project, physicians caring for the elderly will have the tools and knowledge to focus on quality of life rather than merely treating symptoms.

Responsibly undertaking the obligation to interpret, prevent, and treat illness defines the culture of biomedical research at Johns Hopkins. But patient safety and research ethics have become sciences in their own right. Hopkins researchers are using systems and policy approaches to ensure success in these areas. Physician-scientists in critical care medicine received a $4.6 million grant from the NIH to develop the Intensive Care Unit Safety Reporting System (ICUSRS). Built upon an understanding of the relationship between system factors and medical errors, the ICUSRS is relying on specialized training and team communication to eliminate potential dangers in the ICU, where patients are most vulnerable. The Phoebe R. Berman Bioethics Institute, which serves both the University and Health System, received a three-year, $9.9 million award from the Pew Charitable Trusts to establish the Genetics and Public Policy Center in Washington, D.C. This new center will conjoin scientific facts and ethical considerations in debating issues relevant to the identity of the human species. The center's first initiative will focus on ethical and public policy issues related to genetics and human reproduction, such as manipulating genes to select certain characteristics. Activities will include analysis of various arguments, both pro and con, assessing public attitudes and concerns, and creating a body of options for policy-makers and others.

Researchers in all fields share the requirement of being able to find information quickly and accurately. Hopkins engineers are making substantial advances toward increasing this capability. They are part of a multi-institution team, including

IBM and the University of Maryland, that received a $7.5 million grant to be disbursed over five years by the National Science Foundation (NSF) through the Survivors of the Shoah Visual History Foundation. Hopkins' contribution is the development of a speech recognition system that will be a key component of an innovative "audio search engine." Improvements in this technology will be applied to the Shoah Foundation's archive of more than 51,000 video interviews with Holocaust survivors and witnesses in languages other than English to help historians quickly sift through them to find specific accounts.

Efficient data retrieval is a must for astronomers and physical scientists as the information from space missions and satellites reaches enormous proportions. Hopkins astronomers in the Krieger School of Arts and Sciences are among those in the international astronomical community offering these scientists enhanced research opportunities by turning current and future astronomical data repositories into virtual observatories. As part of a total investment by NSF of $24 million over the next three to five years, Hopkins received $2 million this year toward creation of the National Virtual Observatory (NVO). The NVO encompasses technologies which will allow scientists to make important new discoveries in the backlog of data without ever having to look up at the sky.

A Hopkins student group working on the project placed in a Microsoft-sponsored event for a service they developed and named SkyQuery. Using a new programming technique called web services, the team found a way to search three different astronomy databases seamlessly and simultaneously via the World Wide Web as if they were a single database—and cut the time to do it down to two months from an anticipated year or more. As the second place winners, the students received $10,000 for the team and a $10,000 scholarship for Hopkins.

The Applied Physics Laboratory (APL) will continue adding to the collection of astronomical data for years to come, and it couldn't be at a more opportune time. Work on a new NASA contract worth up to $600 million over 12 years will begin just as the work in some of the currently active programs, such as CONTOUR (Comet Nucleus Tour), MESSENGER (Mercury Surface, Space Environment, Geochemistry and Ranging), and STEREO (Solar Terrestrial Relations Observatory) is nearing an end. Under this contract, the APL will design, develop, and operate some of the missions involving multiple spacecraft for NASA's Living With a Star and Solar Terrestrial Probes programs, two key focuses of which are effects on satellite systems and human radiation exposure. NASA has also selected a team led by APL and Southwest Research Institute in San Antonio, Texas, to head the New Horizons: Shedding Light on

Professional Studies.

The School of Professional Studies' Innovative Model for professional business education and applied research serves corporations and governmental organizations throughout the region and across the nation.

The model is based on a uniquely blended faculty that draws upon the expertise of both leading researchers and leading practitioners in their fields. The flagship business program is the MBA. Launched in 1999, this flexible-format program now enrolls more than 1,200 business professionals from across the region. An array of other graduate programs and research centers complement the MBA and serve existing and emerging companies in our region.

One such program is the Leadership Development Program. By building their own leadership capabilities, over 400 graduates of this nationally recognized program have helped to transform the companies and communities where they live and work. Alumni Jessica Montoya and Brian Kelly are helping at-risk residents of the Edgewood Terrace housing community in Washington, D.C., to build the skills required to gain employment at Washington Gas through a project known as Students Educated for Economic Success.

Frontier Worlds mission to explore Pluto, the remotest planet in our solar system, and the Kuiper Belt region beyond. So far, $30 million has been provided to begin project development.

It is certainly not uncommon for Hopkins faculty to claim their share of special honors and awards. But this was no ordinary year in terms of the rarity of the awards given. A Hopkins economist was recognized for his work on the possible relationship between welfare and out-of-wedlock childbearing with a National Institutes of Health MERIT Award. Less than 5% of the legion of NIH investigators have received a MERIT (an acronym for Method to Extend Research in Time) Award since the beginning of the program 16 years ago, and even fewer have gone to researchers outside the hard sciences. Through this award, the researcher is guaranteed approximately $1.5 million in funding over the next 10 years.

Having not been awarded at Hopkins since 1989, two of this year's 23 MacArthur Fellowships—also known as Genius Awards—went to Hopkins researchers. The John D. and Catherine T. MacArthur Foundation awards the $500,000 fellowships with no strings attached, and at the end of the five-year award period, recipients don't even have to write a report. Both awards went to School of Medicine investigators, one in Psychiatry and the other in Molecular Biology and Genetics for their prime contributions to knowledge. They join three other Hopkins faculty who have won MacArthur Fellowships previously.

School of Arts & Sciences.

Comparable in scope to a small university, the Zanvyl Krieger School of Arts and Sciences is remarkably effective in preparing students to become productive and enlightened citizens and in creating knowledge that benefits the world. This year, the school continues its tradition of selective excellence and interdisciplinary education and research with programs and people that are greatly impacting the local, regional, national, and international communities.

This fall, with the help of a $5 million gift from the Leonard and Helen R. Stulman Charitable Foundation Inc. of Baltimore, the Krieger School launches the Leonard and Helen R. Stulman Jewish Studies Program. Building upon the school's strong interdisciplinary foundation, the program will offer new courses, graduate and undergraduate fellowships, public lectures, and enhanced research opportunities. The program will involve Krieger School faculty appointed to two new endowed professorships related to Jewish studies: the Felix Posen Professorship in Modern European Jewish History, and the Blum-Iwry Professorship in Near Eastern Studies. David Nirenberg, the Charlotte Bloomberg Professor of Humanities, has been named director of the program, and three visiting professorships in Jewish studies have also been created.

In the Department of Physics and Astronomy, Research Professor Riccardo Giacconi has been recognized for his impact on the world of science with the 2002 Nobel Prize in physics. A professor at Hopkins from 1982 to 1997, Giacconi has been a research professor in the department since 1998.

The Nobel committee selected Giacconi for his research that laid the foundation for X-ray astronomy—which has led to the discovery of black holes—and for his work in building the first X-ray telescopes. He receives half of the $1 million prize, with the other half split between Raymond Davis of the University of Pennsylvania and Masatoshi Koshiba of the University of Tokyo. Giacconi is the 30th Nobel Prize winner with a Hopkins affiliation.

Investments

At June 30, 2002, the University's total invested funds had a market value of $2,445 million. The bulk of these funds were invested in the Endowment Investment Pool (EIP), which is comprised of assets of some 2,600 separate endowments, each owning shares in the EIP. Although the endowments are pooled for investment purposes, the individual endowments are accounted for on an individual basis to ensure proper compliance with donor restrictions. The balance of invested funds is made up of current funds (e.g., working capital, gifts intended for current use, foundation funds, and funds held under deferred compensation agreements) and charitable remainder funds.

The market value of the EIP at June 30 was $ 1,690 million, falling by some $130 million during the fiscal year from its market value of $1,820 million at June 30, 2001. This decrease in market value reflects the addition of about $63 million to the EIP in the form of new contributions from donors, offset by the impact of the decline in the domestic and international equity markets, which began in the spring of 2000.

All the major asset classes with the exception of fixed income investments and absolute return strategies posted declines for the fiscal year. The negative returns of domestic and non-U.S. equity managers were the primary drivers of the EIP's performance in FY 2002. During the fiscal year the S&P 500 U.S. stock benchmark declined 18.0%, and MSCI EAFE international stock index declined 9.5%. U.S. equity markets have been battered by corporate scandals and accounting irregularities, poor earnings reports and geopolitical tensions in the Middle East. The fixed income benchmark of Lehman Government/Corporate Index had a positive return of 8.2% reflecting falling interest rates and rising bond prices resulting from a flight to quality by equity investors reallocating to safer fixed income assets.

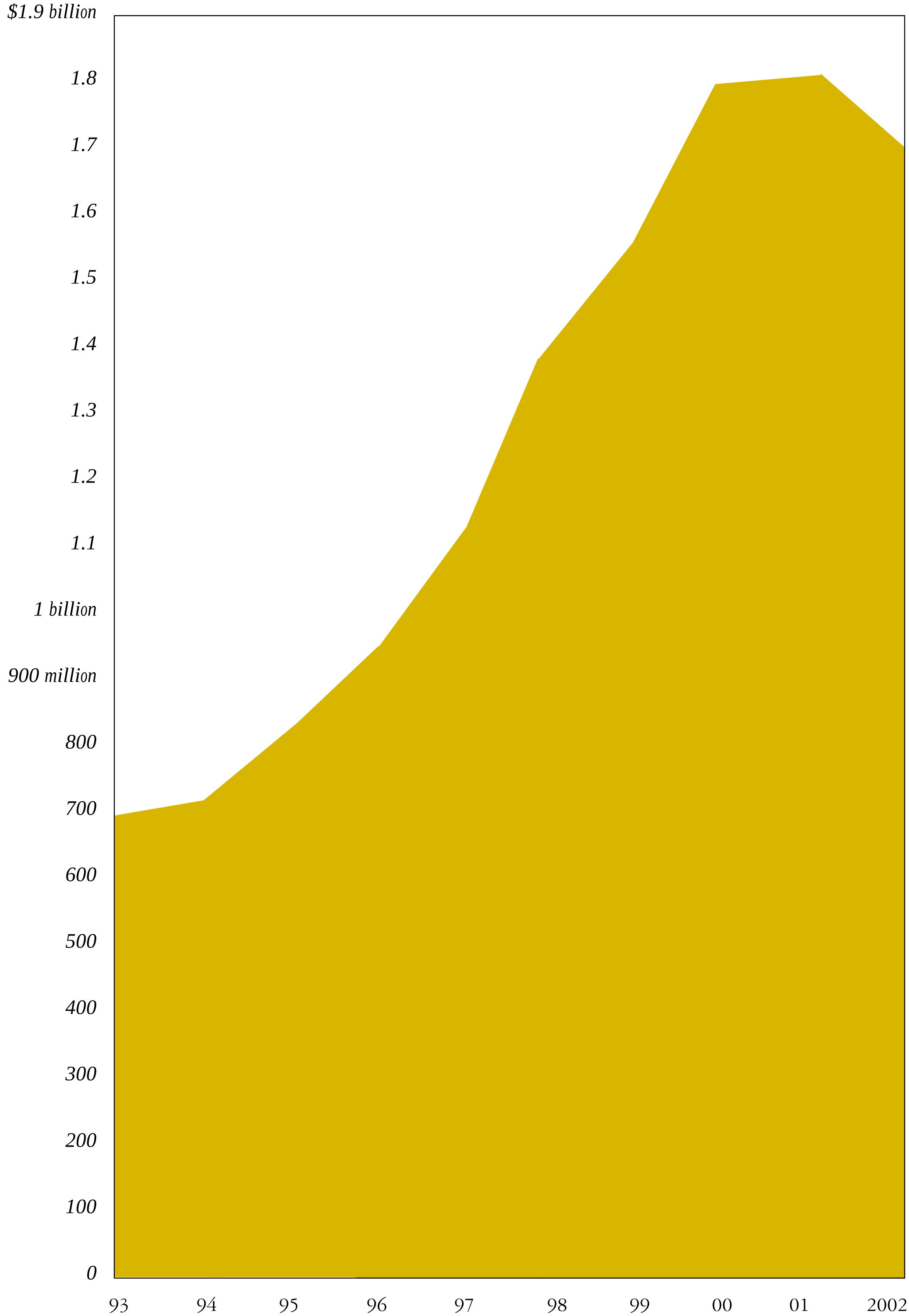
With this backdrop of a meltdown in global financial markets, the EIP generated a negative return of –6.2% for the fiscal year ended June 30, 2002. The performance of the EIP relative to major stock and bond indices highlights the importance of broad diversification within and among major asset classes. Combined, the domestic equity managers had a return of –12.2%, significantly outperforming the S&P 500 Index return of –18.0%. The non-U.S. equity managers had a return of –8.6% again, outperforming their MSCI EAFE benchmark return of –9.5%. The fixed income mangers as a group had a return of 8.5% outperforming their Lehman Government/Corporate Index benchmark return of 8.2%.

Importantly, the alternative marketable investment program in absolute return strategies generated a return of 3.7%. This program invests in various hedge fund strategies with an objective of earning equity-like returns with lower volatility than equity returns and low correlation with those returns. The objective was clearly met in fiscal year 2002, as it has been since inception of the program in fiscal year 2000. The venture capital and private equity investment program was the hardest hit with a return of –31.0%. This is mainly attributable to venture capital and buyout partnerships writing down the value of their investments relative to previous year valuations. While the performance of this asset class was by far the worst, its relatively small share of the EIP significantly dampened its negative impact on the total return of the pool.

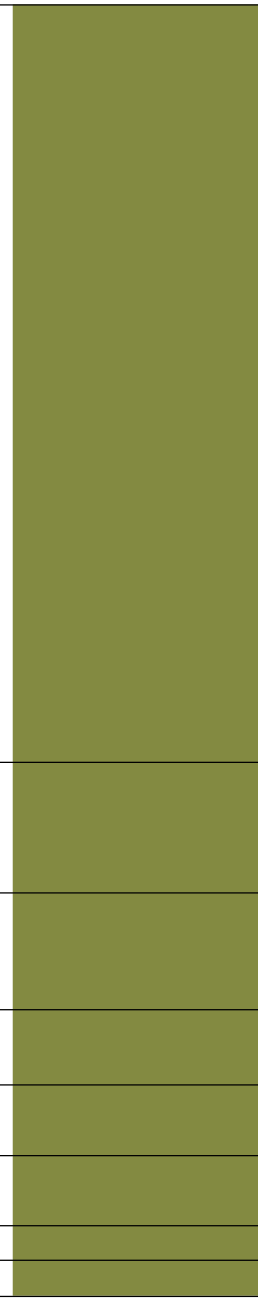
The EIP asset allocation for 2001 and 2002 fiscal years is shown in the accompanying table. There is no significant change in the allocations to any of the asset classes. In a continuing effort to increase the share of endowment assets allocated to private equity and buyout funds, the University committed an additional $35 million to four limited partnerships in fiscal year 2002. Despite a large decline in the valuations of venture capital partnership investments, the Committee on Investments will continue to make investments in this asset class in a very deliberative style with very high-quality partnerships.

As noted above, fiscal year 2002 presented a very difficult environment for the financial markets. The turmoil in the markets followed on the heels of a difficult 2001 for both domestic and international equities. For the two fiscal years combined the S&P 500 has declined by 30.2%, and the MSCI EAFE Index has declined by 30.9%. The Lehman Government/Credit Index had a return of 20.2% for the same period. For the two years, the endowment pool had a return of –7.2%. Viewed in this context, the EIP has performed well in a turbulent environment, reflecting again the benefits of broad diversification.

Johns Hopkins University
Endowment Market Value
As of June 30



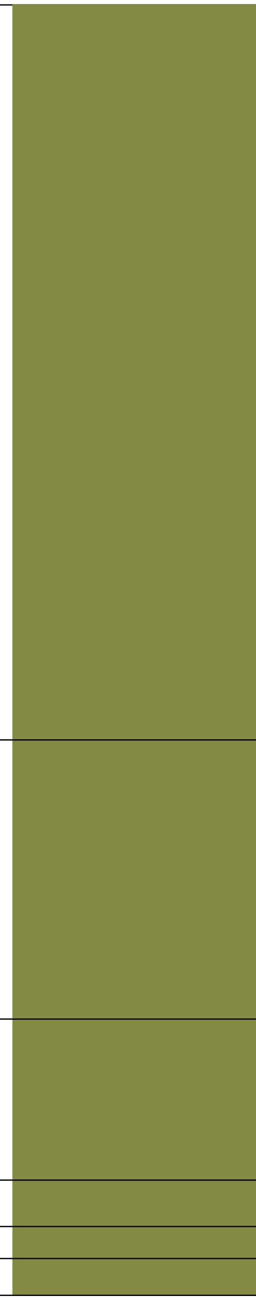
Johns Hopkins University
Operating Revenues
Fiscal year ended June 30, 2002



Grants, contracts, and similar agreements	$1,394,147	57.7%
Tuition and fees	254,062	10.5%
Clinical services	228,069	9.4%
Reimbursements from affiliates	159,261	6.6%
Contributions	144,010	6.0%
Investment income	124,322	5.1%
Other sources	67,198	2.8%
Auxiliary enterprises	46,072	1.9%
Total	**$2,417,141**	**100.0%**

Johns Hopkins University
Operating Expenses—by Object
Fiscal year ended June 30, 2002

Compensation and benefits	$1,315,347	58.9%
Contractual services	488,068	21.9%
Supplies, materials, and other	276,540	12.4%
Depreciation	82,809	3.7%
Travel	44,392	2.0%
Interest	24,365	1.1%
Total	**$2,231,521**	**100.0%**



Johns Hopkins University
Operating Expenses—by Function
Fiscal year ended June 30, 2002

Instruction, research, and clinical practice		
—Academic and support divisions	$1,460,529	65.4%
—Applied Physics Laboratory research contracts	519,556	23.3%
General services and administration	128,855	5.8%
Auxiliary enterprises	55,901	2.5%
Student services	41,674	1.9%
Libraries	25,006	1.1%
Total	**$2,231,521**	**100.0%**

Johns Hopkins University

Five Year Financial Summary

1998-2002 (dollars in thousands)

FISCAL YEAR ENDED JUNE 30	2002	2001	2000	1999	1998
Operating revenues:					
Tuition and fees, net	$ 254,062	231,783	215,076	196,743	181,980
Grants, contracts, and similar agreements:	1,394,147	1,190,958	1,057,513	1,023,937	986,925
Clinical services	228,069	194,538	187,271	177,482	169,170
Contributions	144,010	223,627	90,125	90,674	63,994
Investment income	124,322	109,846	91,558	82,457	69,920
Other	272,531	227,953	239,656	197,347	192,156
Total operating revenues	$ 2,417,141	2,178,705	1,881,199	1,768,640	1,664,145
Operating expenses:					
Compensation and benefits	1,315,347	1,159,727	1,051,929	966,408	926,893
Contractual services	488,068	418,104	377,908	386,985	379,580
Supplies, materials, and other	276,540	241,475	222,407	202,812	183,274
Depreciation of property and equipment	82,809	70,790	75,254	76,801	76,579
Travel	44,392	46,328	40,896	36,501	37,516
Interest	24,365	28,408	25,773	26,433	30,740
Total operating expenses	$ 2,231,521	1,964,832	1,794,167	1,695,940	1,634,582
Total assets	$ 4,166,990	4,007,693	3,817,588	3,310,260	3,033,766
Total liabilities	1,167,687	966,481	955,870	822,852	826,091
Endowments and similar funds held for purposes of Johns Hopkins Hospital	61,475	57,177	60,275	55,185	32,786
Total net assets	2,937,828	2,954,035	2,801,443	2,432,223	2,174,889
Investments, including cash and cash equivalents, at market value:					
Endowment Investment Pool	1,689,717	1,819,555	1,803,289	1,472,752	1,346,255
Total	2,444,853	2,493,885	2,442,870	2,008,879	1,834,713
Investment in plant assets, net	1,006,623	908,404	832,715	781,251	758,812
Indebtedness	662,737	554,717	539,958	427,683	441,781
Head count enrollment (Fall)	18,235	18,074	17,967	17,996	17,279
Employees	20,691	21,251	19,659	17,389	17,474

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111 South Calvert Street
Baltimore, MD 21202

September 26, 2002

Johns Hopkins University
Balance Sheets
June 30, 2002 and 2001 (in thousands)

	2002	2001
Assets:		
Cash and cash equivalents	$ 190,170	248,819
Accounts receivable, net	220,808	195,498
Prepaid expenses, deferred charges and other assets	57,489	41,450
Contributions receivable, net	205,382	201,776
Loans receivable, net	34,324	35,648
Investments	2,254,683	2,245,066
Deposits with bond trustees	118,621	59,184
Investment in plant assets, net	1,006,623	908,404
Interests in trusts and endowment funds held by others	78,890	71,848
Total assets	**$ 4,166,990**	**4,007,693**
Liabilities:		
Accounts payable, deferred revenues and accrued expenses	$ 321,457	266,159
Payables and deferred revenues under split interest agreements	51,951	54,535
Debt	662,737	554,717
Obligations under deferred compensation agreements and other long-term liabilities	131,542	121,070
Total liabilities	1,167,687	996,481
Endowment and similar funds held for purposes of Johns Hopkins Hospital	61,475	57,177
Net assets:		
Unrestricted	1,708,794	1,828,524
Temporarily restricted	380,119	342,874
Permanently restricted	848,915	782,637
Total net assets	2,937,828	2,954,035
Total liabilities and net assets	**$ 4,166,990**	**4,007,693**

See accompanying notes to financial statements.

Johns Hopkins University
Statement of Activities
Year ended June 30, 2002 (in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 254,062	-	-	254,062
Grants, contracts and similar agreements	1,394,147	-	-	1,394,147
Clinical services	228,069	-	-	228,069
Reimbursements from affiliated institutions	159,261	-	-	159,261
Contributions	73,350	70,660	-	144,010
Investment income	124,322	-	-	124,322
Maryland State aid	19,284	-	-	19,284
Sales and services of auxiliary enterprises	46,072	-	-	46,072
Other	47,914	-	-	47,914
Net assets released from restrictions	16,104	(16,104)	-	-
Total operating revenues	2,362,585	54,556	-	2,417,141
Operating expenses:				
Compensation and benefits	1,315,347	-	-	1,315,347
Contractual services	488,068	-	-	488,068
Supplies, materials and other	276,540	-	-	276,540
Depreciation of property and equipment	82,809	-	-	82,809
Travel	44,392	-	-	44,392
Interest	24,365	-	-	24,365
Total operating expenses	2,231,521	-	-	2,231,521
Excess of operating revenues over expenses	131,064	54,556	-	185,620
Nonoperating revenues, gains and losses:				
Contributions	-	3,377	75,279	78,656
Investment loss	(220,326)	(108)	(6,756)	(227,190)
Loss on disposals of property and equipment	(3,832)	-	-	(3,832)
Net assets released from restrictions	19,803	(19,803)	-	-
Loss on extinguishment of debt	(8,443)	-	-	(8,443)
Other	(37,996)	(777)	(2,245)	(41,018)
Nonoperating revenues, gains and losses, net	(250,794)	(17,311)	66,278	(201,827)
Increase (decrease) in net assets	(119,730)	37,245	66,278	(16,207)
Net assets at beginning of year	1,828,524	342,874	782,637	2,954,035
Net assets at end of year	**$ 1,708,794**	**380,119**	**848,915**	**2,937,828**

See accompanying notes to financial statements.

Johns Hopkins University
Statement of Activities
Year ended June 30, 2001 (in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Operating revenues:				
Tuition and fees, net of student financial aid	$ 231,783	-	-	231,783
Grants, contracts and similar agreements	1,190,958	-	-	1,190,958
Clinical services	194,538	-	-	194,538
Reimbursements from affiliated institutions	132,497	-	-	132,497
Contributions	51,393	172,234	-	223,627
Investment income	109,846	-	-	109,846
Maryland State aid	17,680	-	-	17,680
Sales and services of auxiliary enterprises	42,703	-	-	42,703
Other	35,073	-	-	35,073
Net assets released from restrictions	51,441	(51,441)	-	-
Total operating revenues	2,057,912	120,793	-	2,178,705
Operating expenses:				
Compensation and benefits	1,159,727	-	-	1,159,727
Contractual services	418,104	-	-	418,104
Supplies, materials and other	241,475	-	-	241,475
Depreciation of property and equipment	70,790	-	-	70,790
Travel	46,328	-	-	46,328
Interest	28,408	-	-	28,408
Total operating expenses	1,964,832	-	-	1,964,832
Excess of operating revenues over expenses	93,080	120,793	-	213,873
Nonoperating revenues, gains and losses:				
Contributions	-	23,461	59,352	82,813
Investment loss	(131,033)	(502)	(5,024)	(136,559)
Loss on disposals of property and equipment	(2,368)	-	-	(2,368)
Net assets released from restrictions	27,595	(27,595)	-	-
Loss on extinguishment of debt	(585)	-	-	(585)
Other	(4,871)	2,145	(1,856)	(4,582)
Nonoperating revenues, gains and losses, net	(111,262)	(2,491)	52,472	(61,281)
Increase (decrease) in net assets	(18,182)	118,302	52,472	152,592
Net assets at beginning of year	1,846,706	224,572	730,165	2,801,443
Net assets at end of year	**$ 1,828,524**	**342,874**	**782,637**	**2,954,035**

See accompanying notes to financial statements.

Johns Hopkins University
Statements of Cash Flows
Years ended June 30, 2002 and 2001 (in thousands)

	2002	2001
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (16,207)	152,592
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and loss on disposals of property and equipment	86,641	73,158
Loss on extinguishment of debt	8,443	585
Increase in accounts receivable, net	(25,310)	(16,111)
Increase in prepaid expenses, deferred charges and other assets	(16,039)	(16,279)
Increase in contributions receivable, net	(3,606)	(64,850)
Increase in accounts payable, deferred revenues and accrued expenses	50,144	40,612
Increase (decrease) in payables and deferred revenues under split interest agreements	(2,584)	1,859
Contributions restricted for long-term investment	(70,197)	(86,975)
Net realized and unrealized losses from investments	162,242	96,015
Other, net	239	21
Net cash provided by operating activities	173,766	180,627
Cash flows from investing activities:		
Purchases of investments	(2,219,459)	(1,996,016)
Proceeds from sales and maturities of investments	2,040,558	1,878,546
Purchases of property and equipment	(179,706)	(149,993)
Disbursements for student loans	(5,617)	(5,600)
Repayments of student loans	6,850	4,636
Decrease (increase) in deposits with bond trustees, net	(59,437)	27,440
Increase (decrease) in endowments held for others	4,298	(3,098)
Net cash used by investing activities	(412,513)	(244,085)
Cash flows from financing activities:		
Contributions restricted for long-term investment	70,197	86,975
Proceeds from borrowings	219,043	71,372
Scheduled payments of bonds and notes payable	(16,700)	(15,235)
Advance refundings and other payments of borrowings	(102,914)	(42,083)
Increase (decrease) in other long-term liabilities	10,472	(15,473)
Net cash provided by financing activities	180,098	85,556
Net increase (decrease) in cash and cash equivalents	(58,649)	22,098
Cash and cash equivalents at beginning of year	248,819	226,721
Cash and cash equivalents at end of year	**$ 190,170**	**248,819**

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

Johns Hopkins University is a private, nonprofit institution that provides education and related services to students and others, research and related services to sponsoring organizations and professional medical services to patients. The University is based in Baltimore, Maryland, but also maintains facilities and operates education programs elsewhere in Maryland, in Washington, D.C. and, on a more limited scale, in several additional states and certain foreign countries.

Education and related services (e.g., room, board, etc.) are provided to approximately 19,200 students, including 10,500 full-time students and 8,700 part-time students, and produce about 12% of the University's operating revenues. The full-time students are divided about equally between graduate level (including postdoctoral) and undergraduate level. Students are drawn from a broad geographic area, including most of the states in the United States and numerous foreign countries. The majority of the part-time students are graduate level students from the Baltimore-Washington, D.C. area.

Research and related services (e.g., research training) are provided through more than 1,200 agreements with government and private sponsors. Grants, contracts and similar agreements produce about 58% of the University's operating revenues. Approximately 89% of the revenues from research and related services comes from departments and agencies of the United States Government. Major government sponsors include the Department of Health and Human Services, the Department of Defense, the National Aeronautics and Space Administration and the Agency for International Development; these sponsors provided approximately 36%, 30%, 10% and 7%, respectively, of revenues from grants, contracts and similar agreements in 2002.

Professional medical services are provided by members of the University's faculty to patients at Johns Hopkins Hospital and other hospitals and outpatient care facilities in the Baltimore area and produce about 9% of the University's operating revenues. The patients are predominantly from the Baltimore area, other parts of Maryland or surrounding states.

(b) Basis of Presentation

The financial statements include the accounts of the various academic and support divisions, the Applied Physics Laboratory (APL), the Johns Hopkins University Press and affiliated organizations which are controlled by the University, including JHPIEGO Corporation, Peabody Institute of the City of Baltimore and the Fund for Johns Hopkins Medicine. Investments in organizations which the University does not control, including Dome Corporation, Johns Hopkins Healthcare LLC and Johns Hopkins Home Care Group, Inc., are accounted for using the equity method. Certain amounts for 2001 have been reclassified to conform to the presentation for 2002.

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

Net assets, revenues and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

Permanently restricted—Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes, primarily divisional and departmental support and student financial aid.

Temporarily restricted—Net assets subject to donor-imposed stipulations that may or will be met by actions of the University and/or the passage of time.

Unrestricted—Net assets that are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

(c) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the appropriate category of net assets in the period received, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Contributions received for capital projects or perpetual or term endowment funds and contributions under split interest agreements or perpetual trusts are reported as nonoperating revenues. All other contributions are reported as operating revenues. Changes in the nature of any restrictions on contributions due to amendments to agreements with donors are recognized by adjusting operating and nonoperating contribution revenues in the period in which the amendments are approved. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures and similar assets held as part of collections are not recognized or capitalized.

Allowance is made for uncollectible contributions receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors. Estimated collectible contributions to be received after one year are discounted using a risk-free rate for the expected period of collection. Amortization of the discount is recorded as additional contribution revenue.

(d) Cash and Cash Equivalents

Short-term investments with maturities at dates of purchase of three months or less are classified as cash equivalents, except that any such investments purchased with funds on deposit with bond trustees, with funds held in trusts by others or by external endowment investment managers are classified with the applicable assets. Cash equivalents include short-term U.S. Treasury securities and other highly liquid investments and are carried at cost which approximates fair value.

(e) Investments

Investments are stated at their fair values which are generally determined based on quoted market prices or estimates provided by external investment managers or other independent sources. In the limited cases where such values are not available, historical cost is used as an estimate of fair value.

Assets of pooled endowment and similar funds are invested on the basis of a total return policy to provide income and to realize appreciation in investment values. Realized investment gains of these funds may be used to support operations provided that the funds have market values in excess of their historical values. The endowment investment pool payout was approximately 5.3% and 4.5%, respectively, of average market values in 2002 and 2001.

Investment income included in operating revenues consists of income and realized gains and losses on investments of working capital and nonpooled endowment funds (except where restricted by donors) and the annual appropriation of income and realized gains for pooled endowment and similar funds approved by the Board of Trustees. All unrealized gains and losses, any difference between the income and realized gains earned and the appropriated amount for pooled endowment and similar funds and income and realized gains restricted by donors are reported as nonoperating revenues or losses.

(f) Investment in Plant Assets

Investments in plant assets are stated at cost, if purchased, or at estimated fair value at the date of gift, if donated, less accumulated depreciation and amortization. Depreciation of buildings, equipment and library collections and amortization of leasehold improvements are computed using the straight-line method over the estimated useful lives of the assets. Land and certain historic buildings are not subject to depreciation. Title to certain equipment purchased using funds provided by government sponsors is vested in the University. Such equipment is included in investment in plant assets. Certain facilities and equipment used by the APL in connection with its performance under agreements with the United States Government are owned by the government. These facilities and equipment are not included in the balance sheet; however, the University is accountable to the government for them.

(g) Split Interest Agreements and Perpetual Trusts

The University's split interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the terms of the trusts for changes in the values of the assets, accretion of the discounts and other changes in estimates of future benefits.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts are recorded as contributions and the carrying value of the assets is adjusted for changes in estimates of future receipts.

(h) Fair Values of Financial Instruments

Fair values of financial instruments approximate their carrying values in the financial statements, except for indebtedness for which fair value information is provided in note 7.

(i) Affiliated Institutions

The University has separate administrative agreements for the exchange of services with Johns Hopkins Hospital (Hospital) and other medical and educational institutions. Costs incurred by the University in providing services to these institutions and the related reimbursements are reported as operating expenses and revenues, respectively, in the appropriate object and source classifications. Costs incurred by the University for services provided by these institutions are reported as operating expenses in the appropriate object classifications.

The University holds several endowment and similar funds which were designated for purposes or activities that are carried out by the Hospital. The assets of these funds are included in investments and the related income is paid to the Hospital. The carrying values of the funds are adjusted for earnings from and changes in the fair values of the investments, and distributions paid and are excluded from the University's net assets.

(j) Insurance

The University, together with other institutions, has formed captive insurance companies which arrange and provide professional liability, general liability and property damage insurance for their shareholders. Defined portions of claims paid by these companies are self-insured. The University's annual payments to the companies for insurance coverage are based on actuarial studies and are included in operating expenses.

(k) Sponsored Projects

Revenues under grants, contracts and similar agreements with sponsors are recognized as expenditures are incurred for agreement purposes. These revenues include recoveries of facilities and administrative costs which are generally determined as a negotiated or agreed-upon percentage of direct costs, with certain exclusions. Facilities and administrative cost recovery revenues for the academic and support divisions of the University were $190,661,000 in 2002 and $170,669,000 in 2001.

(l) Student Financial Aid

The University provides financial aid to eligible students, generally in a "package" that includes loans, compensation under work-study programs and/or grant and scholarship awards. The loans are provided primarily through programs of the United States Government (including direct and guaranteed loan programs) under which the University is responsible only for certain administrative duties. The grants and scholarships include awards provided from gifts and grants from private donors, income earned on endowment funds restricted for student aid and general funds. Grant and scholarship awards were $106,367,000 in 2002 and $96,644,000 in 2001 and are netted against tuition and fees revenues.

(m) Income Taxes

The University is qualified as a not-for-profit organization under section 501(c)(3) of the Internal Revenue Code, as amended. Accordingly, it is not subject to income taxes except to the extent it has taxable income from businesses that are not related to its exempt purpose.

(n) Derivative Financial Instruments

Effective July 1, 2000, the University adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This Statement requires that all derivatives be measured at fair value and that they be recognized in the balance sheet as assets or liabilities. There was no cumulative effect at July 1, 2000 of adoption of this Statement as all of the derivative instruments held by the University at that date (consisting of futures and forward currency contracts) were stated at fair value in accordance with the applicable authoritative guidance. The effect of adoption in 2001, relating to the accounting for an interest rate swap agreement entered into in April 2001, was not material.

The University's external investment managers are authorized to use specified derivative financial instruments, including futures and forward currency contracts, in managing the assets under their control, subject to restrictions and limitations adopted by the Board of Trustees.

Futures contracts, which are commitments to buy or sell designated financial instruments at a future date for a defined price, may be used to adjust asset allocation, neutralize options in securities or construct a more efficient portfolio. The managers have made limited use of exchange-traded interest rate futures contracts. Margin requirements are met in cash; however, the managers settle their positions on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Forward currency contracts, which are agreements to exchange designated currencies at a future date at a specified rate, may be used to hedge currency exchange risk associated with investments in fixed-income securities denominated in foreign currencies and investments in equity securities traded in foreign markets. The managers settle these contracts on a net basis and, accordingly, the cash requirements are substantially less than the contract amounts. Changes in the market value of the futures and forward currency contracts are included in investment income and were not significant in 2002 and 2001.

The University makes limited use of interest rate swap agreements to manage interest rate risk associated with variable rate debt. Under interest rate swap agreements, the University and the counterparties agree to exchange the difference between fixed rate and variable rate interest amounts calculated by reference to specified notional principal amounts during the agreement period. Notional principal amounts are used to express the volume of these transactions, but the cash requirements and amounts subject to credit risk are substantially less.

Parties to interest rate exchange agreements are subject to market risk for changes in interest rates and risk of credit loss in the event of nonperformance by the counterparty. The University does not require any collateral under these agreements, but deals only with highly rated financial institution counterparties and does not expect that any counterparties will fail to meet their obligations.

(2) Applied Physics Laboratory (APL)

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

The current contract with NAVSEA continues until September 30, 2007, subject to extension at the option of NAVSEA to September 30, 2012. University management expects that a contractual relationship with the United States Navy will continue after expiration of the current contract.

In accordance with an agreement between the United States Government and the University, the APL has been designated a national resource. Under the agreement, if the University should determine that it can no longer sponsor the APL or the Secretary of the Navy should determine that the Navy can no longer contract with the University with respect to the APL, the University will establish a charitable trust to provide for the continued availability of the APL. The trust would be administered by five trustees and the corpus would consist of the University's interest in the APL facilities, including land to the extent necessary, and the balances in the University's APL stabilization, contingency and research fund on the date the trust is established, less certain costs. Upon termination of the trust, the corpus, in whole or in part, would be returned to and held and used by the University for such educational or research purposes and in such manner as the trustees and University agree.

The APL stabilization, contingency and research fund is included in unrestricted net assets and was approximately $214,784,000 and $205,981,000 at June 30, 2002 and 2001, respectively, including net investments in property and equipment of $101,385,000 and $92,390,000, respectively. At June 30, 2002, APL purchase and subcontract commitments were approximately $71,000,000.

(3) Accounts Receivable

Accounts receivable, net, are summarized as follows at June 30 (in thousands):

	2002	2001
Reimbursement of costs incurred under grants and contracts	$ 123,922	110,060
Affiliated institutions, primarily Johns Hopkins Hospital	14,099	15,993
Students	6,080	4,980
Others	37,850	30,594
Total research and training, less allowances of $14,608 in 2002 and $23,783 in 2001	181,951	161,627
Medical services to patients, less allowances of $58,950 in 2002 and $46,470 in 2001	38,857	33,871
	$ 220,808	**195,498**

(4) Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30 (in thousands):

	2002	2001
Unconditional promises scheduled to be collected in:		
Less than one year	$ 68,390	66,613
One year to five years	141,877	139,918
Over five years	30,153	34,346
	240,420	240,877
Less unamortized discount and allowance for uncollectible contributions	35,038	39,101
	$ 205,382	**201,776**

At June 30, 2002 and 2001, approximately 57% of the gross contributions receivable were due from ten donors. Approximately 44% and 66% of contribution revenues for 2002 and 2001, respectively, were from ten donors. At June 30, 2002, the University had also received bequest intentions of approximately $206,833,000 and certain other conditional promises to give. These conditional promises to give are not recognized as assets and, if they are received, they will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of the University.

(5) Investments

Investments are summarized as follows at June 30 (in thousands):

	2002	2001
Cash and short-term investments	$ 50,765	103,017
United States Government and agency obligations	391,734	329,098
Other debt securities	419,955	352,225
Common and preferred stocks	1,017,885	1,075,899
Limited partnership and similar interests	255,800	259,405
Mortgages and notes receivable and other investments	118,544	125,422
	$ 2,254,683	**2,245,066**

Investments are professionally managed, primarily by outside investment organizations, subject to direction and oversight by a committee of the Board of Trustees. The Board has established investment policies and guidelines which cover asset allocation and performance objectives and impose various restrictions and limitations on the managers. These restrictions and limitations are specific to each asset classification and cover concentrations of market risk (at both the individual issuer and industry group levels), credit quality of fixed-income and short-term investments, use of derivative securities, investments in foreign securities and various other matters.

Investment income (loss) is summarized as follows for the years ended June 30 (in thousands):

	2002	2001
Dividend and interest income	$ 71,574	78,036
Net realized gains (losses)	(22,706)	66,995
Net unrealized loss	(139,536)	(163,010)
Decrease in interests in perpetual trusts	(8,623)	(1,423)
Investment management fees	(7,236)	(7,311)
Equity in earnings of non-consolidated subsidiaries	3,659	-
	$ (102,868)	**(26,713)**

Investment income (loss) is classified in the statements of activities as follows for the years ended June 30 (in thousands):

	2002	2001
Operating	$ 124,322	109,846
Nonoperating	(227,190)	(136,559)
	$ (102,868)	**(26,713)**

At June 30, 2002 and 2001, assets of endowment and similar funds, including cash, cash equivalents and investments, amounted to $1,637,529,000 and $1,760,356,000, respectively. Substantially all assets of endowment and similar funds and certain other assets are combined in a common investment pool known as the Endowment Investment Pool (EIP). Purchases and disposals of shares in the EIP are made based on the market value per share at the end of the quarter during which the transaction takes place. At June 30, 2002 and 2001, assets of the EIP, including cash and cash equivalents and investments, amounted to $1,689,717,000 and $1,819,555,000, respectively.

At June 30, 2002 and 2001, other investments include $83,472,000 and $89,498,000, respectively, of investments held by the University under deferred compensation agreements. Such amounts approximate the University's related liabilities to employees which are included in obligations under deferred compensation agreements and other long-term liabilities. At June 30, 2002 and 2001, investments having a fair value of $9,449,000 and $9,270,000, respectively, were pledged as security for the payment of unemployment claims. At June 30, 2002, commitments for purchases of investments were approximately $82,804,000.

(6) Investment in Plant Assets

Investment in plant assets, net, is summarized as follows at June 30 (in thousands):

	2002	2001
Land	$ 35,346	35,346
Land improvements	33,228	16,176
Buildings and leasehold improvements	1,096,857	1,014,379
Equipment	386,855	358,808
Library collections	134,273	124,294
Construction in progress	117,285	85,451
	1,803,844	1,634,454
Less accumulated depreciation and amortization	797,221	726,050
	$ 1,006,623	**908,404**

(7) Debt

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

	2002	2001
Bonds payable	$ 398,771	292,941
Notes payable	166,275	181,776
Commercial paper revenue notes	97,691	80,000
	$ 662,737	**554,717**

Bonds payable, all of which were issued by Maryland Health and Higher Educational Facilities Authority (MHHEFA), consist of the following at June 30 (in thousands):

	2002	2001
Revenue Bonds of 1983, 6.00% to 9.88%, due July 2013, net of unamortized discount of $863 and $1,100	$ 8,692	8,455
Refunding Revenue Bonds of 1997, 4.50% to 5.625%, due July 2027, net of unamortized discount of $225 and $230	13,775	14,035
Refunding Revenue Bonds of 1998, 5.125% to 6.00%, due July 2020, including unamortized premium of $489 and $533	166,814	174,173

Revenue Bonds of 1999, 6%, due July 2039, net of unamortized discount of $2,043	-	75,762
Refunding Revenue Bonds of 2001A, 4.00% to 5.00%, due July 2013, including unamortized premium of $552 and $616	20,032	20,516
Refunding Revenue Bonds of 2001B, 5.00% to 5.30%, due July 2041, net of unamortized discount of $1,401	84,374	-
Revenue Bonds of 2002A, 5.00%, due July 2032, net of unamortized discount of $1,641	105,084	-
	$ 398,771	**292,941**

The bonds payable outstanding at June 30, 2002, are unsecured general obligations of the University. The loan agreements generally provide for semi-annual payments of interest and annual payments of principal, except that no principal payments are due on the Refunding Revenue Bonds of 2001B or the Revenue Bonds of 2002A prior to maturity. The loan agreement relating to the Revenue Bonds of 1983 provides for limitations on the amount of indebtedness the University may incur.

The proceeds of the Refunding Revenue Bonds of 2001B were used to advance refund the Revenue Bonds of 1999. The University recognized a debt extinguishment loss of approximately $8,443,000 on this transaction.

Certain MHHEFA revenue bonds were advance refunded in 1988 using proceeds of an issue of bonds that was later refinanced. The net proceeds were irrevocably placed in trust pursuant to escrow agreements and used to purchase government securities which are payable as to principal and interest at such times and in such amounts as to pay all principal and interest on the refunded bonds. Accordingly, these bonds are considered to have been extinguished and neither the debt ($33,135,000 at June 30, 2002) nor the irrevocable trusts are included in the balance sheet.

Notes payable consist of the following at June 30 (in thousands):

	2002	2001
MHHEFA note due May 2004	$ 3,013	3,139
MHHEFA note due November 2015	45,848	47,841
MHHEFA note due November 2020	16,990	17,428
MHHEFA note due February 2025	4,710	13,740
MHHEFA note due July 2026	6,143	6,227
Note due June 2002, 10%	-	1,673
Note due December 2002, 7.91%	11,120	11,325
Note due July 2004, 3% (government subsidized effective rate)	243	337
Note due June 2012, 7.29%	2,221	2,369
Note due December 2019, 8.88%	75,987	77,697
	$ 166,275	**181,776**

The MHHEFA notes are part of a pooled loan program. The notes are unsecured general obligations of the University, bear interest at a variable rate (1.50% at June 30, 2002) and are due in monthly installments. Under terms of the loan agreements, the University may be required to provide security for the loans in certain circumstances.

The notes due December 2002 and June 2012 are unsecured general obligations of the University and are due in annual installments (with interest payable monthly and semi-annually, respectively). Under terms of the related loan agreements, the University may be required to provide security for the loans in certain circumstances. The notes due July 2004 and December 2019 are secured by certain of the University's property. The note due July 2004 is payable in quarterly installments. The note due December 2019 is due in annual installments with interest payable monthly.

The commercial paper revenue notes were issued by MHHEFA. Under the commercial paper program, the University may have revenue notes outstanding of up to $100,000,000 to finance and refinance the costs of qualified projects to July 2031. The notes are unsecured, bear interest at rates that are fixed at the date of issue and may have maturities up to 270 days from that date. The notes outstanding at June 30, 2002, bear interest at a weighted-average rate of 1.49%.

In April 2001, the University entered into an interest rate swap agreement with a national bank to reduce its interest rate risk on a portion of the commercial paper revenue notes. The agreement extends through April 2007 and provides for the University to pay a fixed rate of 5.415% and receive a variable rate based on a notional principal amount of $20,100,000.

The aggregate annual maturities of the bonds and notes payable for the five years subsequent to June 30, 2002 are as follows: 2003, $24,207,000; 2004, $16,664,000; 2005, $14,104,000; 2006, $14,987,000; and 2007, $27,248,000.

Total interest costs incurred and paid were $29,797,000 in 2002 and $28,922,000 in 2001, of which $5,432,000 and $514,000 was capitalized in 2002 and 2001, respectively. Interest income of $4,686,000 in 2002 and $2,484,000 in 2001 earned from the investment of the unexpended proceeds of certain borrowings has been applied to reduce the costs of the related assets acquired.

Under terms of a master note agreement with a commercial bank, the University may borrow up to $50,000,000 under a line of credit for APL working capital purposes. Advances under the line of credit are unsecured, due on demand and bear interest at a rate which varies based on certain specified market indices. The laboratory drew $4,902,000 and $0 on the line of credit as of June 30, 2002 and 2001, respectively.

The estimated fair value of the University's debt is determined based on quoted market prices for publicly traded issues and on the discounted future cash payments to be made for other issues. The discount rates used approximate current market rates for loans or groups of loans with similar maturities and credit quality. The carrying amount and estimated fair value of the University's debt are summarized as follows at June 30 (in thousands):

	2002		2001	
	Carrying amount	*Estimated fair value*	*Carrying amount*	*Estimated fair value*
Variable rate bonds and notes	$ 76,704	76,704	88,375	88,375
Fixed rate bonds and notes	488,342	518,820	386,342	420,100
Commercial paper revenue notes	97,691	97,691	80,000	80,000
	$ 662,737	**693,215**	**554,717**	**588,475**

Fair value estimates are made at a specific point in time, are subjective in nature and involve uncertainties and matters of judgment. The University is not required to settle its debt obligations at fair value and settlement is not possible in some cases because of the terms under which the debt was issued.

(8) Refundable Advances from the United States Government

Funds provided by the United States Government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included in obligations under deferred compensation agreements and other long-term liabilities. These advances totaled approximately $30,810,000 and $30,352,000 at June 30, 2002 and 2001, respectively.

(9) Net Assets

Under accounting principles generally accepted in the United States of America for external financial reporting by not-for-profit organizations, unrestricted net assets are those which are not subject to donor-imposed restrictions. The practices used by the University for internal financial management and reporting purposes differ in certain respects from the practices prescribed for external financial reporting purposes, particularly with respect to the timing of recognition of the release of donor-imposed restrictions on contributions and related investment income and gains. In addition, certain net assets classified as unrestricted for external financial reporting purposes are designated for specific purposes or uses under various internal operating and administrative practices of the University. As a result, substantially all of the net assets classified as unrestricted as of June 30, 2002 and 2001 have been invested in property and equipment or are designated for specific uses.

Unrestricted net assets consist of the following at June 30 (in thousands):

	2002	2001
Net investment in property and equipment	$ 449,319	397,411
APL stabilization, contingency and research fund, excluding net investment in property and equipment	113,399	113,591
Funds designated for divisional and departmental support	1,133,956	1,304,596
Student loan funds	12,120	12,926
	$ 1,708,794	**1,828,524**

Temporarily restricted net assets consist of the following at June 30 (in thousands):

	2002	2001
Contributions designated for departmental and divisional support or facilities	$ 346,944	308,319
Split interest agreements	19,987	21,367
Land subject to time and purpose restrictions	13,188	13,188
	$ 380,119	**342,874**

Permanently restricted net assets consist of the following at June 30 (in thousands):

	2002	2001
Perpetual endowment funds	$ 777,333	719,930
Interests in perpetual trusts	55,789	45,305
Split interest agreements	15,793	17,402
	$ 848,915	**782,637**

(10) Affiliated Organizations

The Johns Hopkins Health System Corporation (JHHS)

JHHS is incorporated and governed separately from the University and is the parent entity of an academically based health system which includes The Johns Hopkins Hospital, The Johns Hopkins Bayview Medical Center, Howard County General Hospital and other related organizations. The University and JHHS have established a Board of Johns Hopkins Medicine (JHM) to direct, integrate and coordinate the clinical activities of the two organizations. JHM does not have the authority to incur debt or issue guarantees and its annual budgets require the approval of the boards of trustees of both the University and JHHS.

The Johns Hopkins Hospital (Hospital)

The Hospital is a member of JHHS and serves as the primary teaching facility of the University's School of Medicine. Because of the closely related nature of their operations, the University and Hospital share facilities and provide services to each other to fulfill their purposes more effectively. The sharing of facilities and services is negotiated annually and set forth in a Joint Administrative Agreement (JAA). Costs charged to the Hospital under the JAA, related primarily to the provision of professional medical services by the University, aggregated approximately $81,600,000 in 2002 and $68,000,000 in 2001. Costs charged to the University under the JAA, related primarily to rental of space in Hospital facilities under a renewable one-year lease, aggregated approximately $50,000,000 in 2002 and $43,600,000 in 2001.

(11) Pension and Postretirement Benefit Plans

The University has several pension plans, primarily defined contribution plans, that are available to substantially all full-time employees. The policy of the University is to fund pension costs as accrued. Pension expense was $70,954,000 in 2002 and $57,738,000 in 2001, including $25,179,000 and $22,210,000, respectively, related to pension plans for employees at APL.

The University has a retiree benefits plan that provides postretirement medical benefits to employees who meet specified minimum age and service requirements at the time they retire. The University pays a portion of the cost of participants' medical insurance coverage. The University's portion of the cost for an individual participant depends on various factors, including the age, years of service and time of retirement or retirement eligibility of the participant. The University has established a trust fund for its retiree benefits plan and intends to make contributions to the fund approximately equal to the annual net postretirement benefit cost, including amortization of the transition obligation over a period of 20 years from July 1, 1993.

Information relating to the obligations, assets and funded status of the plan at June 30, 2002 and 2001 and for the years then ended is summarized as follows (in thousands):

	2002	2001
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 99,432	92,839
Service cost	3,359	2,391
Interest cost	9,952	7,171
Plan participant contributions	1,991	1,390
Actuarial loss	41,126	2,907
Benefits paid	(8,618)	(7,266)
Benefit obligation at end of year	147,242	99,432

Change in plan assets:		
Fair value of plan assets at beginning of year	52,581	54,315
Actual return on plan assets	(3,765)	(4,336)
University contribution	11,689	8,478
Plan participant contributions	1,991	1,390
Benefits paid	(8,618)	(7,266)
Fair value of plan assets at end of year	53,878	52,581
Funded status	(93,364)	(46,851)
Unrecognized net actuarial loss	60,774	12,744
Unamortized prior service cost	464	541
Unrecognized transition obligation	28,178	30,740
Accrued postretirement benefit cost	**$ (3,948)**	**(2,826)**
Weighted-average assumptions at June 30:		
Discount rate	7.25%	7.75%
Expected rate of return on plan assets	8.50%	8.50%
Rate of increase in health care costs for next year:		
Participants over age 65	9.50-10.00%	6.50%
Participants under age 65	9.50-10.00%	6.50-8.00%

The plan assets consist primarily of investments in mutual funds managed by an independent investment management organization.

The rates of increase in health care costs were assumed to decrease to 5.5% in 2004 and to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the reported postretirement benefit cost and obligation. A one-percentage point change in the assumed rates used at June 30, 2002 would have the following effects (in thousands):

	One-percent Increase	*One-percent Decrease*
Total service and interest cost components	$ 1,858	(1,488)
Postretirement benefit obligation	**19,021**	**(14,459)**

The postretirement benefit cost includes the following components for the years ended June 30 (in thousands):

	2002	**2001**
Service cost	$ 3,359	2,391
Interest cost on accumulated benefit obligation	9,952	7,171
Amortization of transition obligation	2,562	2,562
Amortization of prior service cost	77	77
Amortization of actuarial loss (gain)	1,791	(86)
Expected return on plan assets	(4,734)	(4,724)
	$13,007	**7,391**

(12) Functional Expense Information

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

	2002	**2001**
Instruction, research and clinical practice:		
Academic and support divisions	$ 1,460,529	1,291,423
Applied Physics Laboratory contracts	519,556	451,310
Student services	41,674	35,521
Libraries	25,006	23,992
General services and administration	128,855	107,760
Auxiliary enterprises	55,901	54,826
	$ 2,231,521	**1,964,832**

Costs related to the operation and maintenance of physical plant, including depreciation of plant assets and interest on related debt, are allocated to program and supporting activities based upon periodic inventories of facilities. Fundraising costs were not significant in 2002 and 2001.

(13) Lease Commitments

As described in note 10, the University leases certain facilities from the Hospital under a renewable one-year lease which provides for a rent equal to the cost to the Hospital of providing and maintaining the facilities. This lease has been renewed for the year ending June 30, 2003.

The University leases certain other facilities used in its academic and research operations under long-term operating leases expiring at various dates to 2032, subject to renewal options in certain cases. Certain of these facilities are leased from Dome or other affiliated organizations. The aggregate annual minimum rents to be paid to the expiration of the initial terms of these leases are as follows at June 30 (in thousands):

	Affiliates	Others	Total
2003	$ 16,455	16,842	33,297
2004	14,098	16,159	30,257
2005	13,882	14,734	28,616
2006	13,300	11,941	25,241
2007	12,561	10,274	22,835
After 2007	144,998	41,247	186,245
	$ 215,294	**111,197**	**326,491**

(14) Other Commitments and Contingencies

At June 30, 2002, the University had the following additional commitments and guarantees relating to affiliated organizations:

- The University has guaranteed payment of 50% of amounts borrowed by Johns Hopkins Home Care Group, Inc. under line of credit agreements with a commercial bank. The maximum amount available under these agreements is $8,500,000; the amount outstanding at June 30, 2002 was approximately $3,750,000.
- The University has guaranteed payment of a specified percentage of annual debt service payments (up to an annual maximum of approximately $385,000) due under a loan issued by MHHEFA to JHHS to finance the acquisition of Howard County General Hospital. This guarantee continues until maturity of the loan in 2033.
- The University has guaranteed payment of up to $1,400,000 of debt obligations of Dome under terms of a credit enhancement agreement relating to financing of certain properties and, together with JHHS, has agreed to provide Dome with funds required, if any, to meet its obligations under the agreement.

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

Amounts received and expended by the University under various federal and state programs are subject to audit by governmental agencies. In 1997, the Office of Inspector General, Department of Health and Human Services (OIG), advised the University that as part of its national program to determine compliance with Medicare guidelines, an audit would be performed of billings to Medicare for services of faculty teaching physicians in 1994. The audit began in 1998 and is in progress. Management believes the University has made a good faith effort to comply with Medicare billing guidelines, but that the guidelines were unclear, excessively detailed, lacking consistent application and, in some respects, contrary to published regulations. It is possible that the OIG's interpretations of the guidelines with respect to the nature, extent and/or specific content of the records needed to support billings to Medicare may differ from the University's. The independent auditors reviewing the University's compliance with Medicare regulations found an extremely high level of compliance that is consistent with levels at other institutions where audits resulted in minimal or no claims for recoveries. The auditors identified variances, which even if sustained, would not have a material effect on the financial condition of the University and for which, in the opinion of management, adequate provision has been made.

On July 19, 2001, the Office of Human Research Protections (OHRP) suspended clinical trials conducted under the University's OHRP "assurance." Funding for federal research was not interrupted. On July 21, 2001, the University filed its plan of correction with OHRP and on July 22, 2001 OHRP accepted the University's plan of correction, with conditions. The plan has been implemented, and OHRP has acknowledged that the University has put in place a satisfactory system for protection of human subjects and has completed all actions required by the agency.

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